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Nigerian gas plant deal to go ahead says Shell group

The plan by a consortium led by Shell to build a liquefied natural gas plant in Nigeria will go ahead although financing for the $3.6bn project has not been finalised, the companies said. The project has been the source of controversy since last week's execution in Nigeria of Ken Saro-Wiwa and other human rights activists. Page 18

Apec close to free trade deal: The 18 governments of the Asia Pacific Economic Co-operation forum are near to agreement on a compromise plan to eliminate all barriers to trade by 2020. The compromise would allow flexible treatment for opening markets in sensitive sectors. Page 18; Editorial Comment, Page 17

HK hits at Chinese civil rights plan: Hong Kong's Legislative Council condemned Beijing's plans to water down civil rights laws after its 1997 takeover of the colony. Page 8

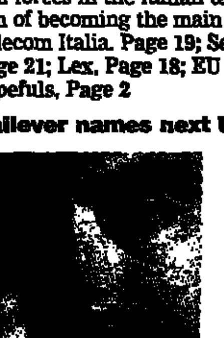
Russia hints at Chinese security pact: Russia hinted it might try to draw China into a new anti-western security bloc if Nato went ahead with plans to expand eastwards. Page 4

Lloyd's chief executive resigns: Peter Middleton resigned as chief executive of the Lloyd's of London insurance market and is to take up a senior management role at Salomon Brothers, the investment bank. Page 10

Sterling sinks to record lows: The pound sank to a record low as figures showed a rise in unemployment and the biggest fall in UK living standards for nearly 14 years. Page 18

Telecom Italia faces rival: France Télécom, Italy's Olivetti and Bell Atlantic of the US are to join forces in the Italian telecoms market with the aim of becoming the main rival to state-controlled Telecom Italia. Page 19; Seeking strength in unity, Page 21; Lex, Page 18; EU clears lines for telecom hopefuls, Page 2

Unilever names next UK chairman



Niall FitzGerald, head of Unilever's global detergent business during last year's controversial failure of Persil and Omo Power laundry detergents, is to be the next chairman of the UK arm of the Anglo-Dutch consumer goods company. Unilever is still spending heavily on advertising and marketing to claw back market share lost by Persil and Omo and Mr FitzGerald is expected to instigate sweeping changes. Page 19

George Wimpey and Tarmac, two of the UK construction sector's largest companies, revealed plans to swap their housebuilding, building materials and construction divisions. Page 25; Lex comment, Page 26

Fund for EU film industry: The European Commission launched an Ecu200m ($262m) fund to bolster film productions from well-established companies in the European Union. Page 3

Warning on sugar fraud: An upsurge in international sugar fraud could be costing companies in developing and Eastern European countries up to $400m. Page 19

Czech oil investment agreed: Three western oil companies – Agip of Italy, Conoco of the US and Royal Dutch/Shell – signed an agreement on a $480m investment in the Czech Republic's oil refining industry. Page 19

Australia set for industrial unrest: Australia was braced for a wave of industrial action as a dispute between the mining group CRA and unions over collective bargaining rights threatened to shut docks and coal mines. Page 8

German opposition backs Emu: Germany's opposition Social Democratic party dispelled the impression that the party is hostile to the idea of European economic and monetary union at its congress in Mannheim. Page 4

Ford unions reject offer: Trade unions and Ford management were still trying to reach agreement on a two-year pay deal for the company's 22,000 manual workers in the UK. Management earlier improved its basic wage offer from 3 per cent to 4 per cent but unions rejected it. Page 12

Four alleged Mafia hitmen held: Sicilian police have arrested four alleged hitmen for the Corleone clan of the Sicilian Mafia. The men have been charged with a string of murders in and around Palermo.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	4,879.76	(+7.95)
NASDAQ Composite	1,037.89	(-2.73)
Europe and Far East		
CAC40	1,875.18	(+36.97)
DAX	2,186.17	(-11.12)
FT-SE 100	3,571.4	(+23.5)
Nikkei	17,882.74	(-119.77)

US LUNCHTIME RATES

Federal Funds	6%
3-mth Treas Bills: Yld	5.514%
Long Bond	107$\frac{13}{32}$
Yield	6.283%

OTHER RATES

UK: 3-mo Interbank	6$\frac{11}{16}$%	(same)
UK: 10 yr Gilt	104$\frac{1}{2}$	(104$\frac{1}{4}$)
France: 10 yr OAT	105.32	(104.63)
Germany: 10 yr Bund	101.39	(101.25)
Japan: 10 yr JGB	113.423	(113.144)

NORTH SEA OIL (Argus)

Brent 15-day (Dec)	$16.455	(16.345)

GOLD

New York: Comex		
Dec	$385.8	(386.5)
London:		
close	$385.9	(385.85)

DOLLAR

New York: lunchtime		
£	1.56035	
DM	1.404	
FFr	4.84575	
SFr	1.1352	
Y	101.025	
London:		
£	1.5579	(1.564)
DM	1.4024	(1.4145)
FFr	4.8435	(4.8805)
SFr	1.1345	(1.1396)
Y	101.035	(101.54)

STERLING

DM	2.1847	(2.2123)
Tokyo $ close:	Y 100.95	

Austria	Sch35	Greece	Dr400	Malta	Lm0.80	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$30	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft215	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lw110.00	Iceland	IKr230	Nigeria	Naira80	Slovak Rp	Sk60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	Kc55	Israel	Shk7.90	Oman	OR1.50	Spain	Pta250
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Peso50	Switz	SFr3.60
Estonia	EKr 30	Jordan	JD1.50	Poland	Zl 4.20	Syria	S£50.00
Finland	FM15	Kuwait	Fils.625	Portugal (m'land)	Es230	Tunisia	Din1.500
France	FFr11.00	Lebanon	US$1.50			Turkey	L60,000
Germany	DM3.80	Lux	LFr70			UAE	Dh12.00

French PM unveils welfare shake-up

Juppé targets public deficit with spending cuts and tax plans

By John Ridding and David Buchan in Paris

A fundamental reform of France's welfare system, including spending cuts and higher taxes, to wipe out accumulated deficits of FFr250bn ($51bn), was announced yesterday by Mr Alain Juppé, the prime minister.

The measures, approved last night by the National Assembly in a confidence vote, are based on structural reforms designed to bring the social security system under closer government control. They include immediate steps to slash the deficit from FFr61bn this year to FFr17bn in 1996 and produce a surplus the following year. Mr Juppé also requested drugs companies to make a one-off FFr2.5bn contribution.

Eliminating the welfare deficit is a central element in France's attempt to cut its public deficits to below 3 per cent of gross domestic product, one of the conditions for qualifying for European monetary union from 1999.

The tough French plan comes as the US and many other European governments are reviewing welfare systems in an attempt to reduce budget deficits. The shutdown of some US government operations this week is linked to a dispute over cuts in welfare spending.

Announcing his proposals to overhaul politically sensitive social security institutions, Mr

Juppé grasps the welfare nettle .... Page 2

Juppé told MPs from the ruling centre-right: "It is not the fate of the government that is involved, there is a national issue at stake."

His plans drew strong criticism from some trade unions. The communist-led CGT called for a "powerful day of struggle" on November 28, the date set for a strike by Force Ouvrière, which has a strong base among social security workers. But the moderate CFDT union said it would not support the strike.

Financial markets responded favourably to Mr Juppé's reforms. The CAC-40 index of leading shares jumped 2 per cent to close at 1,875 points, while the French franc strengthened slightly to trade at FFr3.55 to the D-Mark.

Mr Jean Gandois, head of the Patronat employers' federation, welcomed "brave decisions", applauding the fact that the deficits will be cut largely through spending cuts.

Mr Juppé said the government planned to amend the constitution to give parliament power to set overall ceilings on welfare spending. He outlined plans to tighten budgetary controls in hospitals, one of the main sources of inefficiency, and said doctors who overstepped spending limits would be penalised through restrictions on charges to patients.

The Gaullist premier said he would implement emergency measures by decree. These include the creation of a special body to combine and repay the FFr250bn of accumulated welfare debts.

This will be achieved partly by raised taxes. A new 0.5 per cent tax on income, dubbed the RDS and based on the existing CSG income tax, will be levied for the next 13 years. Exemptions from the CSG itself will be reduced to help finance welfare spending, and to reduce the contribution from payroll taxes, which presently fund the bulk of the social security system.

Overall health spending will be limited to an increase of 2.1 per cent next year, while the pharmaceuticals industry will be asked to contribute FFr2.5bn to support the health insurance system.

The prime minister did not specify how the charge would be levied or distributed, but it is expected to be spread across the industry and may be determined on how companies have kept agreements with the government on price and volumes.

Opening move: US trade representative Mickey Kantor presents a gift to his Japanese counterpart Ryutaro Hashimoto before their bilateral meeting in Osaka. The 18 governments of the Asia Pacific Economic Co-operation forum meet in the city this week seeking a long-term deal on lowering trade barriers. Apec nears deal, Page 18; Editorial Comment, Page 17 Picture: Reuter

Fed likely to cut rates as factory output falls

Move expected once budget impasse resolved

By Michael Prowse in Washington

US industrial production fell in October, providing fresh evidence that economic growth is decelerating, official figures indicated yesterday.

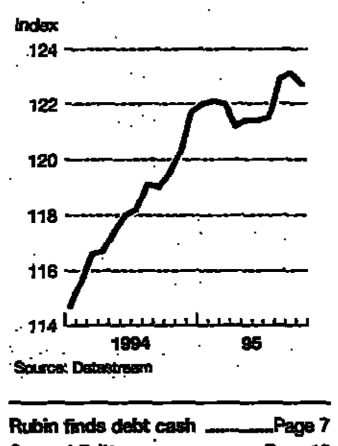
The Federal Reserve said output dropped 0.3 per cent in its first decline in six months. The fall partly reflected the impact of a strike at Boeing, the aircraft maker, which cut factory output by about 0.2 per cent. But, even allowing for the strike, most sectors were flat or down.

Separately, the Labour Department released figures showing an unexpected upward move in inflation last month. Consumer prices rose 0.3 per cent from September and by 2.8 per cent on an annual basis, but economists said the underlying inflation picture remained bright.

The figures were released amid growing expectations that the Fed would respond to signs of slowing growth by lowering interest rates in coming months. Fed policy makers met in Washington yesterday but made no immediate announcement on rates. However, an easing of monetary policy is seen as likely next month, if the budget impasse between Congress and the White House is resolved.

No negotiations on the budget crisis, which has shut down large areas of the federal government, were due to be held yesterday.

US industrial production



Source: Datastream

Rubin finds debt cash .... Page 7
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Wall Street .... Page 38

The National Association of Business Economists yesterday predicted economic growth would slow sharply – to an annual rate of 2.4 per cent in the fourth quarter against 4.2 per cent in the July-September period. Growth was likely to remain moderate next year.

Against this backdrop, the Fed was likely to reduce rates significantly, perhaps by as much as half a percentage point, the association said. The Fed lowered short-term rates by a quarter point in July to 5.75 per cent, citing a decline in inflationary pressures.

Industrial production showed across-the-board weakness last month. Output of consumer goods, business equipment and construction supplies were down 0.5 per cent, 0.8 per cent and 0.6 per cent respectively. The rate of industrial capacity utilisation fell sharply to 83.6 per cent from a revised 84.1 per cent in September, indicating little risk of factory sector pressure on prices.

The 0.3 per cent rise in consumer prices reflected larger than expected increases in the cost of housing, energy and clothing. Excluding food and energy, the "core" consumer price index also rose by 0.3 per cent, following a string of moderate 0.2 per cent increases.

Economists, however, said the increase did not signal an acceleration in inflation and should not stand in the way of lower interest rates.

"The underlying inflation picture is very benign," said Mr Bruce Steinberg, senior economist at Merrill Lynch in New York. "The performance of the economy fully justifies an easing of monetary policy."

Hafslund investors halt US merger

By Hugh Carnegy in Stockholm and Tony Jackson in New York

Hafslund Nycomed, Norway's biggest healthcare company, yesterday pulled out of its proposed merger with Ivax of the US, bowing to strong objections from a minority of shareholders.

The merger, announced last month, would have created the world's biggest producer of generic drugs – those that have lost patent protection – with market capitalisation of about $6.5bn and sales this year of more than $2.5bn.

But it ran into trouble in Norway where several key Hafslund shareholders were sceptical of Ivax's long-term prospects and afraid that the merger would lead to the rundown of Hafslund's operations there.

The chief opponents were Folketrygdfondet, the state pension fund, and KLP, the municipal pension fund, which together control about 15 per cent of Hafslund's shares.

"The main problem was they believed that the merger meant Hafslund would eventually abandon Norway. The deal was unappetising for the pension funds whose raison d'etre is to create jobs," said one observer.

Hafslund said it had withdrawn because it was unlikely that it would win the required two-thirds support, although it

Continued on Page 18

Euro Disney park makes first profit as visitors reach 10.7m

By Andrew Jack in Paris

Euro Disney, operator of the theme park near Paris, made a profit this year for the first time since it opened in 1993, with net income of FFr114m ($23.3m) and a sharp rise in the number of visitors.

Mr Philippe Bourguignon, chairman, said Euro Disney was now undergoing a "renaissance" after last year's losses of FFr1.8bn, which triggered a wide-ranging financial restructuring.

The company was now in a "virtuous circle ... and can concentrate on its future", he said.

The number of visitors jumped 21 per cent to a record 10.7m in the year to September 30, and hotel occupancy rose 14 per cent to 68.5 per cent, which the group said was higher than the average rate of occupancy for hotel chains across France.

Euro Disney said the results were due to a significant increase in park and hotel income, tight cost management and the financial restructuring made in the summer of last year.

However, the company's shares closed down 14 per cent at FFr14.20 on the Paris bourse yesterday, in a drop that analysts attributed to the fact that nearly all of the profits were the result of exceptional gains.

The group generated profits of FFr2m before one-off profits which were largely the result of buying back FFr372m in convertible bonds for FFr311m, saving it interest payments. Under US rules, it would have made a FFr1.1bn loss for the year.

Revenues increased 8 per cent to FFr2.5bn, although spending per visitor dropped 10 per cent to FFr224, largely as a result of the group's decision in April to cut entrance prices, which represent on average half of the expenditure in the park.

Mr Bourguignon said gate prices would stay at current rates at least for the coming year, but there would be further adjustments to hotel, restaurant, gift and other prices.

He said that on average 65 per cent of the extra income brought in by additional guests to the park would be profits, up to a total estimated capacity of 14m visitors a year.

He estimated that the group would need to increase revenues by 4 to 5 per cent a year to meet interest and management charges which would add FFr120m to costs in 1996, FFr230m in 1997 and FFr120m in 1998, after which there are also royalties and management fees to the US Disney parent company. He said there were no plans to distribute a dividend at least during this period.

Euro Disney said Disney would provide the finance for a new convention centre to be opened in late 1997, which is expected to cost up to FFr170m.

Investors unimpressed, Page 20
Lex, Page 18

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'TORAY'

Juppé grasps the welfare nettle

PM's reform plans stunned the National Assembly yesterday, writes **David Buchan**

Any serious overhaul of France's social security system – which has become riddled with waste and vested interests over the past 50 years – was bound to cause a big impact. But Mr Alain Juppé, the prime minister, deliberately resorted to shock tactics in presenting his reforms yesterday to a spellbound National Assembly.

First, he proposed to cut next year's estimated welfare deficit of FFr61bn (£8bn) not just in half, as he had promised earlier, but to FFr17bn.

Second, reversing the traditional tack taken by French governments when confronted with a financial gap, he proposed closing it more by cutting welfare spending than by raising welfare charges and taxes. Next year alone, he plans savings of FFr17bn and increased charges of FFr12bn.

The prime minister flourished another new figure before the National Assembly where some of his backbenchers, particularly supporters of his predecessor, Mr Edouard Balladur, had complained in this week's social security debate that the government was exaggerating by putting the welfare debt backlog at FFr230bn. Far from being too low, Mr Juppé said yesterday, the real debt figure was FFr250bn, because debt from a separate scheme for farmers had to be added in.

Mr Juppé's other tactic yesterday was to spread the pain of his measures as widely as possible. The clearest evidence of this was his proposed new 0.5 per cent levy on all forms of income of all but the poorest citizens, in order to repay the FFr250bn debt backlog over the next 13 years.

But, in closing the current deficit, he also stressed the shared nature of the sacrifices he was calling for. Pensioners, and those unemployed drawing higher rates of compensation would have their relatively low health insurances charges increased by FFr7bn next year. Families would have to forego next year a rise in allowances, which, from 1997, would be taxed and means-tested.

Big companies would lose a FFr2.5bn tax exemption on pension contributions, while the drug sector – considered partly to blame for France's health spending extravaganza – would be asked to kick in the same amount.

Drug companies said yesterday they expected their contributions to be gauged according to how they respected price and volume conventions agreed last year. Mr Juppé said the industry had experienced sales growth of 12 per cent between September 1994 and September 1995.

Doctors and hospitals are supposed to discipline themselves better to the tune of FFr5bn next year. Finally, social security administrators themselves will be expected next year to lop FFr1.5bn off the FFr40bn annual cost of running the system.

Indeed, the system itself will be turned upside down. Overt control will now pass from unions and employer organisations to parliament. Mr Juppé announced that the government would soon table a constitutional amendment to bring the welfare system under the purview of parliament, which would set welfare taxes and fix its spending goals each year. Taking the system out of the grasp of unelected "social partners" would give it "new democratic legitimacy", Mr Juppé claimed.

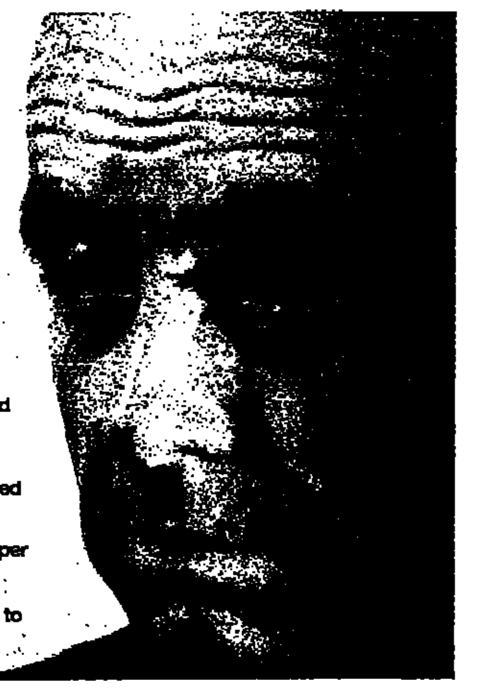
He plans to use another special procedure. Proposals to unify the country's 19 different health insurance schemes, to widen the current CSG welfare charge, and to create private pension funds will be presented in the form of standard legislation. But all immediate financial changes, and everything relating to the reorganisation of hospitals and doctors' practices, are to be passed by decree.

Legislation by decree only requires MPs to vote on the measures en bloc. It therefore saves time, and MPs the embarrassment of having to take a position on individually unpopular measures.

In return for all this, Mr Juppé only made one notable concession. He postponed until 1997 a homecare allowance for the elderly which he had made a key pledge for his new government.

Social security: the axe falls

- **Debt:** total FFr250bn backlog to be repaid over 13 years by a new 0.5 per cent levy on all income.
- **Deficit:** to be cut from FFr64bn in 1995 to FFr17bn in 1996.
- **Future funding:** to be shifted from payroll to income levies, with companies paying more according to value added than number of employees.
- **Old people:** pension contributions to be extended from 37.5 to 40 years. Proposed homecare allowance delayed to 1997.
- **Family allowances:** to be frozen in 1996 and taxed from 1997.
- **Health:** some insurance contributions to rise 1.2 per cent in 1996 and 1997. Spending contraints on hospital, doctors and drug companies. Patients should consult general practitioners before going to specialists.



Prime Minister Alain Juppé

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Cabinet reins in budget deficit

By David Buchan and Andrew Jack in Paris

The French government yesterday took remedial action to keep this year's budget deficit to its FFr322bn (£42bn) target.

The cabinet announced measures – chiefly the cancellation of FFr20bn of departmental spending credits, and the "sale" of FFr15bn of public housing credits to the state-owned Caisse des Dêpots – to offset a FFr24bn shortfall in tax revenue and an extra FFr16bn spending commitments made during the year.

At yesterday's cabinet meeting, Mr Alain Juppé, the prime minister, said the cuts, which hit defence equipment heaviest, were "at the limit of what is possible in the present institutional structure". He was counting on reforms of France's governmental structure next year to produce further cuts in 1996.

The finance ministry also announced yesterday the extension of tax breaks to help the hard-pressed property market and to promote the new Nasdaq-type market the Paris Bourse is setting up for small, fast-growing companies.

To prevent more property being dumped on the market, the government is to extend for two years, until the end of 1998, the registry tax exemption for dealers on real estate acquired before 1993. Individual investors on the Paris Bourse's New Market will not have to pay bourse tax, while capital-risk funds can continue to get favourable tax treatment for their operations on the new market.

The one surprise element in the 1995 budget revision is the way the government plans to cash in its enormous past subsidies to the CGLS public housing guarantee fund. It argues these subsidies now make it effective "owner" of past CGLS credits, which Mr Jean Arthuis, the finance minister, said yesterday had a market value of FFr15bn, and which he plans to "sell" to the Caisse des Depôts.

EU clears lines for telecom hopefuls

By Emma Tucker in Brussels

New measures to ensure a fully competitive telecoms market in the European Union after liberalisation in 1998 were presented by the Commission yesterday.

They set common rules for granting licences to operators who wish to offer services anywhere in the Union. The idea is to make the system as transparent and non-discriminatory as possible, so that all companies have an equal chance of access once remaining industry restrictions have been lifted and traditional operators have lost their monopolies on voice telephony.

The proposals form part of a steady stream of rules and regulations emanating from the Commission as it seeks to establish a regulatory framework for the 15 member states.

Brussels wants the regime to be as light-handed as possible. Under the proposals member states will retain responsibility for authorising operators who want to offer services. However, rules will have to be applied to ensure national authorities do not favour domestic companies.

First, no limitations should be set for the number of new entrants except where resources are scarce.

Secondly, the rules favour granting telecoms companies general permission to offer all services in another member state, rather than making them apply for a separate licence for each service.

Individual licences should only apply in specific cases, for example, where radio frequencies are limited or where an operator wants access to a non-EU country.

Countries must also introduce provisions to facilitate cross-border services. In particular, a company that intends to provide a service in more than one member state may request the national regulatory authorities concerned to co-ordinate their authorisation procedures so that permission to operate is granted on substantially the same conditions.

EUROPEAN NEWS DIGEST

Irish plea on divorce vote

The leaders of Ireland's three coalition parties yesterday held a joint press conference to urge a Yes vote in the divorce referendum, in the first sign of official concern at the prospect of losing next week's key poll.

Mr Dick Spring, the Labour party leader and foreign minister, said threats from the church that divorcees would be denied the last rites and other Catholic sacraments was "way over the top". Mr John Bruton, the prime minister, strongly rebutted charges from the anti-divorce campaign, which has alleged that the proposed amendment undermines the family, damages property rights, and encourages "quickie" divorces.

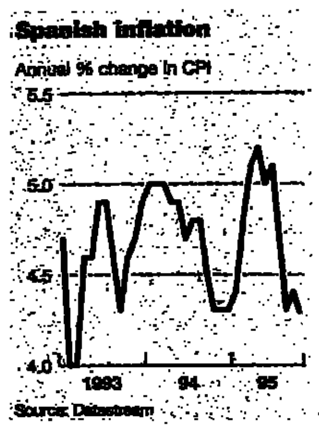
A similar referendum to end the constitutional ban on divorce was defeated by 2:1 in 1986 and latest polls suggest support for a Yes vote is slipping. A Yes vote is endorsed by all the parties in the Dail – although some individual MPs have said they will vote against. *John Murray Brown, Dublin*

Belarus former PM accused

The public prosecutor in Belarus said yesterday he had evidence that Mr Vyacheslav Kebich, the country's first post-Soviet prime minister, had illegally signed securities putting at risk huge sums of public money. Mr Kebich, a candidate for president last year, denied the allegations, describing them as a "political provocation".

Investigators claim Mr Kebich last year signed 32 securities, payable to the bearer, worth a total of $1.1bn and turned them over to a Yugoslav construction concern, ostensibly with the aim of obtaining credits. It is alleged that the securities fell into the hands of a British criminal gang later apprehended by chance by London police. Investigators said the documents were returned to Minsk last month. Mr Kebich, now an MP, said he had signed a single document which posed no threat to the economy as no credits had been issued in connection with it. He suggested the charges had been raised to blunt his bid to become the Speaker of parliament. *Reuter, Minsk*

Inflation eases in Spain



Spain's inflation rate eased slightly last month with a 0.2 per cent rise in consumer prices, bringing the 12-month rate down to 4.3 per cent from 4.4 in September. After a surge in the spring, accumulated price increases this year have already exceeded an original 3.5 per cent target. But the finance ministry said it expected a rate well below 4 per cent in the early months of 1996. Food was the only category for which prices actually fell in October, the index for fresh foodstuffs falling 0.9 per cent. The lower consumer price figure was offset by an unchanged 4.9 per cent rate for underlying inflation and a continuing high level of factory gate price increases, which stood at a 12-month rate of 6.6 per cent in September. *David White, Madrid*

■ Portuguese consumer prices rose 0.4 per cent in October after 0.2 per cent in September, for unchanged inflation of 4 per cent year-on-year. Industrial output rose 5.6 per cent in August from August last year but fell 29.7 per cent from July.

هكذا من الأصل

EU fund to help film industry financing

By Emma Tucker in Brussels

A bold initiative to revitalise Europe's film industry through a guarantee fund aimed at mass-appeal productions was launched by the European Commission yesterday.

The Ecu200m (£170m) fund is to bolster popular, commercially-sound television and film productions from well-established companies rather than "one-off, artistically brilliant but financially disastrous" projects, as one industry source put it.

The fund will make it easier for film companies to raise money from banks and financial institutions by acting as an insurer. It will offer financial backers partial guarantees on loans and credit to film and programme makers.

"By diversifying and spreading the risks, it will encourage the financial sector to step up the scale of its activities in support of the industry," said the Commission. Mr Marcelino Oreja and Mr Yves Thibault de Silguy, respectively commissioners for audio-visual policy and economic affairs, believe the fund will mobilise some Ecu1bn of finance.

The initiative marks a shift away from the idea that direct subsidies, still provided by most EU countries, are the best way to enhance Europe's film industry.

It reflects a belief in the industry that incentives such as guarantee funds are a better way of promoting competitiveness and meeting the challenge from Hollywood.

"New financial incentives to encourage large-scale investment in film are key to the development of a healthy and competitive audiovisual industry in Europe," said Polygram, the Netherlands-based music and entertainment group.

Big European film companies were delighted with the scheme. "This plan is not asking for hand-outs or subsidies," said the European Film Companies Alliance, a lobby group which counts French, German, British, Dutch, Italian and Spanish companies among its members. "The fund will be a market-oriented incentive scheme, administered with financial discipline by commercial bankers."

The fund, which will benefit European production and distribution companies, is intended exclusively for fictional works as "original works with wide audience appeal" is where Europe faces its biggest deficit, according to Brussels. To win backing from the fund, projects will have to have "major European and international market potential".

It will not operate in direct contact with companies, but via the banks and insurance companies which propose to share the risks associated with the productions.

The fund will be administered by the European Investment Fund (EIF) set up as a general guarantee fund for other EU initiatives last year. The EIF was set up by the European Investment Bank, the Commission and 76 financial institutions.

Car sales ticking over in Europe

Car sales in western Europe rose slightly last month, but manufacturers fear recovery has petered out and that total sales this year will be little changed from 1994, writes John Griffiths. Total sales last month reached 926,300, 1.6 per cent up on the 912,100 of the previous October. Of the 17 individual markets covered in European Automobile Manufacturers' Association statistics, 10 showed increases, but these included Norway, Finland, Greece and Ireland, whose combined sales were only around 30,000.

For the first 10 months of the year, Western European sales reached 10,284,400, a rise of only 0.7 per cent on the same period of last year. Germany, which typically accounts for around 25 per cent of the sales total, was one of only two large markets to record a significant year-on-year sales rise in October – of 9.4 per cent to 246,800 units. The other was the UK, where sales were 11.5 per cent higher in October, at 136,600 units.

Even the reintroduction in France of government-sponsored incentives to stimulate new car purchases produced no response, the market there falling by 6.5 per cent in October compared with the same period a year ago.

October saw the Volkswagen group, including Audi, Seat and Skoda, further consolidate its position as west European market leader. Its unit sales rose by 11.9 per cent to 162,606, representing a market share of 17.6 per cent, more than 5 percentage points clear of second-placed General Motors.

WEST EUROPEAN NEW CAR REGISTRATIONS
January-October 1995

	Volume (Units)	Volume Change(%)	Share (%) Jan-Dec 94	Share (%) Jan-Dec 93
TOTAL MARKET	10,284,400	+0.7	100.0	100.0
MANUFACTURERS:				
Volkswagen group	1,714,182	+5.8	16.7	15.9
– Volkswagen	1,091,582	+4.4	10.6	10.2
– Audi	320,399	+21.4	3.1	2.6
– Seat	247,121	–4.9	2.4	2.5
– Skoda	55,080	+7.8	0.5	0.5
General Motors	1,342,767	+2.1	13.1	12.9
– Opel/Vauxhall	1,282,381	+2.1	12.5	12.3
– Saab	49,477	+14.3	0.5	0.4
Ford group	1,239,940	+1.5	12.1	12.0
– Ford	1,226,561	+1.2	11.9	11.9
– Jaguar	13,379	+51.4	0.1	0.1
PSA Peugeot Citroen	1,238,966	–5.4	12.0	12.8
– Peugeot	739,754	–6.1	7.2	7.7
– Citroen	499,212	–4.4	4.9	5.1
Fiat group"	1,122,537	+2.0	10.9	10.8
– Fiat	879,078	+0.3	8.5	8.6
– Lancia	136,280	–0.3	1.3	1.3
– Alfa Romeo	105,526	+22.7	1.0	0.8
Renault	1,071,152	–3.4	10.4	10.8
BMW group	636,726	–4.1	6.2	6.5
BMW	331,823	+0.4	3.2	3.2
Rover	304,903	–8.6	3.0	3.3
Mercedes-Benz	346,160	–5.8	3.4	3.6
Volvo	187,706	+9.8	1.8	1.7
Nissan	319,684	–4.5	3.1	3.3
Toyota	263,181	–2.3	2.6	2.6
Honda	155,287	+5.2	1.5	1.4
Mazda	144,734	–5.4	1.4	1.5
Mitsubishi	109,811	+7.6	1.1	1.0
Total Japanese	1,117,539	–0.8	10.9	11.0
Total Korean	149,050	+66.1	1.4	0.9
MARKETS:				
Germany	2,821,500	+3.8	27.4	26.6
United Kingdom	1,730,800	+1.2	16.8	16.7
France	1,615,500	+0.5	15.7	15.7
Italy	1,429,900	–1.0	13.9	14.1
Spain	689,400	–8.4	6.7	7.4

*VW holds 60.3 per cent and management control of Skoda.
#Includes cars imported from US and sold in western Europe.
**GM holds 50 per cent and management control of Saab Automobile.
Fiat group includes Lancia, Alfa Romeo, Innocenti, Ferrari and Maserati.
Source : ACEA (European Automobile Manufacturers Association) estimates. Figures are rounded.

Santer doubt on stability pact

By Lionel Barber in Brussels

Germany's plan for a "stability pact" on budget discipline within a future European monetary union received qualified endorsement yesterday from Mr Jacques Santer, the Commission president.

While firmly supporting the idea of sustained fiscal discipline for Emu members, Mr Santer said there could be no changes in Maastricht treaty rules governing membership.

"The Commission could accept a stability pact only to the extent this would increase cohesion in the member states which are members of the monetary union," he said in Strasbourg.

The worry in Brussels is that Germany's push for a stability pact could serve as a cover for tightening the so-called convergence criteria on deficits, debt, inflation rates and exchange rate stability which govern entry into Emu.

Mr Theo Waigel, German finance minister, has insisted he has no desire to modify the treaty. But the Commission is uncomfortable about his proposal for draconian fines on countries which run deficits in excess of Maastricht's ceiling of 3 per cent of GDP.

EU finance ministers are due to discuss the German plan – and this week's European Monetary Institute's report on the changeover to a single European currency – in Brussels on November 27. Some officials are already predicting a lively exchange over the way Germany is dominating the Emu debate.

Mr Waigel's campaign is partly in response to the threat by the opposition Social Democrat party to exploit public ambivalence about a single currency as an election issue. But it may also be an attempt to make the Emu scheme more feasible and credible.

Mr Felipe González, Spanish prime minister, warned about creating confusion concerning the Maastricht treaty, particularly for those countries which are going to form the nucleus of monetary union. Some countries were making tremendous efforts to qualify for a single currency, he said. This process could be derailed if the membership criteria were altered.

Mr Santer and Mr González were appearing at a joint news conference with Mr Klaus Haensch, president of the European Parliament, after the first ever political debate on the state of the Union.

In his speech, Mr Santer warned against a minimal outcome at next year's intergovernmental conference to review Maastricht and said it was vital to prepare for enlargement to the east. Without mentioning an extension of qualified majority voting directly, he said that without further institutional changes there was a risk of having an enlarged Union which was totally paralysed.

Flynn tries to end long disagreement on single market issues

Brussels dusts off blocked laws

By Caroline Southey in Brussels

The Commission yesterday signalled an end to the days when it unleashed annual torrents of legislation on member states. It said it planned to propose just 19 new laws in 1996, compared with about 50 this year and a high of 180 in 1990, Reuter reports from Brussels. However, this partly reflects the fact that most of the laws needed to create the EU's huge single market have already been initiated.

The European Commission yesterday launched a novel initiative to end years of disagreement on five pieces of single market legislation covering important aspects of company law.

The statutes have been blocked, in one case for more than 20 years, because some member states, notably Britain, opposed the inclusion of clauses relating to employee consultation.

Four of the statutes set out a single law for the creation of companies, associations, mutual societies and co-operatives – designed to let them operate Europe-wide without having to set up subsidiaries in different member states. The fifth directive covers the powers and obligations of public limited companies.

Mr Padraig Flynn, social policy commissioner, is proposing scrapping the clauses on employee involvement. They might instead be replaced by a reference to the European works council directive, which sets out the rules under which larger EU companies must consult their workers.

Britain could be excluded from the benefits of the statutes if their implementation is conditional on acceptance of the works council directive. The UK has an opt-out from the directive, agreed by the other 14 member states under the social protocol.

A Commission official said Mr Flynn was "initiating a debate" on how to break the impasse on the statutes and address the problem of worker consultation. He has invited comments from member states, the European Parliament, employers' federations and unions on the various alternatives outlined in the paper.

Other ideas include leaving out a reference to works councils, which would open the way for Britain to apply the new statutes. But this could run into problems with some member states which would object to the idea of giving Britain the benefits of the statutes without having to address the issue of employee consultation.

Mr Flynn has also suggested that Brussels draw up ground rules on worker involvement for national companies.

An EU official pointed out that the Commission's proposals could also face union opposition. "The Commission might be accused of retreating. But the reality is that the statutes are blocked. Unless we do something nothing will be achieved," he said.

The works council directive says only that employees have to be informed and consulted, while the clauses in the five statutes provide for the right of employee involvement in company affairs at board level.

In addition, the works council directive covers only multinational companies with 1,000 employees, including at least 150 in two member states.

Accounting rules may be changed

By Emma Tucker in Brussels

The European Commission is investigating ways of allowing EU companies to prepare their consolidated accounts on the basis of international accounting standards, following complaints that accounts prepared on the basis of national legislation are not accepted in the main securities markets outside Europe.

Companies currently have to prepare two sets of accounts, which can confuse investors by giving different results. "Companies should only be required to prepare one set of consolidated accounts," said Mr Mario Monti, the commissioner responsible for financial services.

Mr Monti believes EU accounting rules are flexible enough to allow companies to prepare one set of accounts without far-reaching legislative changes, helping to ease their access to international capital markets .

"We are looking for compatibility between European accounting laws and international accounting standards," said an official. "We want to find out how companies can use international standards as a framework for their accounts without violating existing EU rules."

A task force of experts from the member states is to investigate where there are conflicts between EU norms and international standards. The Commission will then decide whether further legislation is required or – the preferred option – how better to interpret the existing law to allow for compatibility.

Russia waves China card in Nato's face

By John Thornhill in Moscow and Bruce Clark in Washington

Russia hinted yesterday that it might try to draw China into a new, anti-western security bloc if Nato went ahead with plans to expand eastwards.

General Pavel Grachev, the Russian defence minister, also said Moscow would not meet the terms of the Conventional Forces in Europe (CFE) agreement, one of the cornerstones of post-cold war arms control, by midnight tomorrow when the deadline for compliance expires.

In a further escalation of Moscow's anti-Nato rhetoric, Gen Grachev said any enlargement of the Atlantic alliance would create a new balance of forces in Europe and "plant the seeds for further dangerous crises".

Speaking after a top-level review of Russia's strategic priorities, he said Moscow aimed to strengthen security agreements with Belarus and Kazakhstan by the end of the year.

"If Nato looks east, then we will also look east and find allies with whom we can solve security problems," he said. Gen Grachev was apparently alluding to China as well as the ex-Soviet republics.

Referring to the CFE accord, Gen Grachev said: "We are not ready at the moment to carry out the provisions of this treaty," adding that the Chechen conflict required Moscow to keep more troops in the Caucasus region than the treaty allowed.

These comments indicate the failure of a compromise stitched together by Gen Grachev and his US counterpart, Mr William Perry.

This accord would have limited the areas of north-western and south-western Russia where Moscow's armour is subject to restrictions.

Turkey, a Nato member, had already criticised the Perry-Grachev deal as too generous to Russia, and Gen Grachev's remarks suggest that Moscow now regards the compromise as not generous enough.

In a separate problem for Nato, alliance members were struggling yesterday to reach agreement on a new secretary-general, following the failed candidacy of the former prime minister of The Netherlands, Mr Ruud Lubbers.

Mr Javier Solana, 53, the Spanish foreign minister who signalled his interest in the job last month, insisted yesterday that his country could provide a secretary-general, even though it does not participate fully in Nato's integrated military structure.

US officials said the status of Spain could be a drawback, but Mr Solana's fluent English and close ties with the US – he is a former Fulbright scholar and is said to have a good relationship with senior administration figures – would count in his favour.

Washington remains interested in the candidacy of Mr Uffe Ellemann-Jensen, the former Danish foreign minister who has run into French objections.

Mr Felipe González, the Spanish prime minister, said Mr Solana would make a "magnificent" secretary-general but added that Spain had not yet considered the suggestion.

"We have not considered the possibility of putting forward Mr. Solana's name as secretary-general of Nato," Mr González told journalists in Brussels.

Spain's Foreign Ministry said Madrid reserved the right to put forward a name. "For the time being there is no Spanish candidate," the ministry said.

SPD pledges loyalty to EU

By Peter Norman in Mannheim

Germany's opposition Social Democratic party (SPD) yesterday put its internal discord briefly to one side and pledged itself to the causes of European Union, international peace and job creation in Germany.

In a rousing speech that earned an enthusiastic standing ovation from the delegates to the SPD congress in Mannheim, Mr Oskar Lafontaine, the prime minister of the Saar and deputy chairman of the party, insisted that the SPD "is and stays the European party of Germany".

In putting the party leadership squarely behind the idea of European union, Mr Lafontaine dispelled the impression that the SPD was hostile to the idea of economic and monetary union (Emu). But some reservations were apparent in spite of his pro-European rhetoric. It had been a mistake not to link Emu closer to the political union of Europe, he said. A European economic policy was needed to make Emu work. It would also be necessary to link the currencies of non-Emu countries in Europe to the single European currency to avoid competitive devaluations that would destroy jobs in Emu member states.

Mr Lafontaine's speech lifted the party congress out of the introspective and bitter discussion about divisions in the leadership that had dominated the first day. Its reception contrasted with the subdued ovation given to Mr Rudolf Scharping, the party leader, on the first day of the congress.

The speech also contained a threat to Mr Scharping's authority because Mr Lafontaine made clear that he was opposed to the deployment of German Tornado aircraft over Bosnia, a policy that Mr Scharping supports.

Introducing a debate on economic policy, Mr Lafontaine called for a fairer tax system in Germany, shorter working hours and more support for research and development. In a resolution, the party leadership said the main goal of SPD economic policy was "to secure and create jobs" and this distinguished it from the policies of the Bonn government which were "primarily geared to short-term profits".

At the centre of the party's efforts to take the economic initiative from the government of Chancellor Helmut Kohl is "ecological reform" of the German tax system which envisages a step-by-step reduction of taxes and non-wage labour costs such as social security levies. To pay for these cuts and help preserve the environment, the party wants a "steady and measured" increase of taxes on environmentally damaging energy and raw material consumption.

Beaujolais Nouveau producers get sniffy on boycott

By Andrew Jack in Paris

Opposition to French nuclear testing in the South Pacific may have cut demand for Beaujolais Nouveau in some countries, but the French are bracing themselves to make up the shortfall.

After years of turning up their noses at what many saw as a snobby or *arriviste* Parisian obsession, *la France profonde* (outside the capital) is apparently beginning to express interest in the first significant wine crop of the year.

The light-bodied, fruity red wine was "discovered" by smart Parisian cafés and brasseries after the war, with the slogan *le Beaujolais nouveau est arrivé*. Consumption topped 50m bottles last year, boosted by decades of international hype, including races to bring the first bottles from producer to table.

Figures released by the Beaujolais producers' association, ahead of the launch today of this year's wine, suggest that any boycott may be offset by a surge in domestic demand – even though the overall wine market is in decline. Mr Michel Deflache, assistant director of the producers' association, said advance orders for Beaujolais Nouveau were down 30 per cent in Japan and more than 5 per cent in the Netherlands. There had been noticeable drops in demand elsewhere, including Australia, New Zealand and Scandinavia, but these were insignificant markets for Beaujolais.

There was growth in other markets, he said, including in the UK, where Mr John Major, the prime minister, has refused to criticise President Jacques Chirac's decision to re-start testing. But the market in France, which represents about a half of sales, was growing well. "Beaujolais is rediscovering its roots," he said.

He conceded that Beaujolais Nouveau was not a top-range wine, but said the French were increasingly drinking it as a party wine.

The country's cafés have gone into decline, with thousands closing in the last few years, but Mr Deflache said interest among restaurants was growing and more and more French people were buying Beaujolais Nouveau to drink at home. He cited a chain of 300 wine stores which was stocking Beaujolais Nouveau for the first time this year.

But today's release of the new season's Beaujolais comes against a background of an overall decline in wine sales, particularly of red wine. France's National Interprofessional Wine Office said domestic wine consumption fell 7 per cent in 1994 compared with the year before, continuing a long-term trend – the number of people buying wine fell, as did the average number of bottles each bought.

Austrian artist Hermann Nitsch pouring pig's blood on to dead fish outside the French embassy in Vienna yesterday in protest against France's nuclear testing in the South Pacific. A French embassy spokesman, who said he rated Nitsch's work highly, described the protest as artistic expression AP

EUROPEAN NEWS DIGEST

Polish rivals neck-and-neck

President Lech Walesa and his challenger for Poland's presidency, Mr Alexander Kwasniewski, are running neck-and-neck before the second round of voting on Sunday, according to latest opinion polls.

One poll carried out before last Sunday's live television debate gave Mr Walesa, the former Solidarity leader, 51 per cent, two points ahead of his former Communist rival. However, another put Mr Kwasniewski, leader of the Democratic Left Alliance party (SLD), at 51.5 per cent, against Mr Walesa's 48.5.

Yesterday the Walesa campaign tacitly admitted that the president had misjudged the popular mood in the first television debate and that he would be "statesmanlike" in last night's second debate. The two sides continue to trade allegations, with Mr Walesa's supporters claiming Mr Kwasniewski paid a lower than market price for his flat and that Mr Jerzy Dziewulski, a Kwasniewski supporter responsible for security, had contacts with Mossad, the Israeli intelligence agency. *Christopher Bobinski, Warsaw*

Russians pass draft budget

The lower house of Russia's parliament yesterday approved a modified version of the 1996 draft budget after the government agreed to increase spending on social programmes, agriculture, and defence by an additional Rbs4,500bn ($1bn).

The government received unexpected support from Mr Vladimir Zhirinovsky, the leader of the ultra-nationalist Liberal Democratic party of Russia, whose support helped push the budget through by a margin of 237 votes to 77 after it was initially rejected three times yesterday.

The draft budget, which had already been amended by a conciliatory commission composed of government ministers and parliamentary deputies, envisages an average monthly inflation of 1.9 per cent and a budget deficit of 3.8 per cent. But some of the details will have to be further re-worked after the government's latest promise to increase total expenditure by about 1 per cent. Meanwhile, the upper house of parliament yesterday confirmed that next year's presidential poll would take place on June 16. *John Thornhill, Moscow*

Oslo's central banker goes

Mr Thorstein Moland, Norway's central bank governor, said last night he was stepping down temporarily while authorities investigated a tax case against him. "I have a clear conscience, (but) my credibility has been questioned. I find it difficult to carry out my duties as central bank governor so I am stepping down temporarily while the matter is dealt with," Mr Moland told a news conference. Investigators are looking at a limited partnership of around 150 investors established to acquire Airbus aircraft. Mr Moland is being investigated to determine if he had prior knowledge of a repurchase agreement which would have allegedly given him illegal tax breaks. *Reuter, Oslo*

Czechs set to join OECD

Mr Josef Zieleniec, the Czech foreign minister, is to sign an agreement on November 28 allowing the Czech Republic to join the Organisation for Economic Co-operation and Development, Mr Vaclav Klaus, the prime minister, said yesterday.

He told reporters that after parliament had ratified the agreement, the Czech Republic would become the 26th member of the organisation of industrialised nations and the first from post-communist eastern Europe. *Reuter, Prague*

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NEWS: INTERNATIONAL

Nigeria's military rulers are united in valuing their grip on power at home above their image abroad

For Abacha's regime, the world can wait

When Nigeria's army rulers met last week to confirm the death sentences against Mr Ken Saro-Wiwa and eight other Ogonis, they had to choose between securing their grip on power at home and keeping on good terms with the world.

It did not take long. The swift order to execute the men last Friday was a clear statement of their priorities. At the top of the list is a firm hold on the armed forces during a slow move towards civilian elections without any serious challenge from civilian opponents. Friendship with Nigeria's international creditors, trading partners and fellow African nations can wait.

General Sani Abacha's reactionary power base was united in favour of execution of the nine Ogonis for murdering four rival politicians last year.

The decision earlier this year to commute the sentences of retired generals Shehu Yar'Adua and Olusegun Obasanjo and other officers alleged to have plotted a coup was seen by the hawks in the army *as a sign of weakness, with* possible effects on discipline.

So when it came to the fate of Mr Saro-Wiwa and his fellow Ogonis there was to be no backing down.

There has been little protest within Nigeria. In the Niger delta, where there is anger at the executions, a heavy army and police presence has deterred any disorder.

However, the civilian ruling class dominated by the mainly Moslem and Hausa-speaking north saw Mr Saro-Wiwa as a trouble-maker whose campaign for the rights of minority tribes in the oil producing region threatened the unity of the country and the flow of about $7bn a year in oil revenue from the Niger delta to the rest of the country. This revenue sustains the government and is the lifeblood of the civilian politicians in the south who are hungry for fresh elections and are aligning themselves for the formation of political parties under the watchful eye of the government.

The regime also felt justified in going ahead with the executions because, as was not the case with the alleged coup plot, *this could be presented as a* straightforward criminal case.

Abacha, right, felt snubbed by the west when they criticised his three-year transition programme announced in October when he commuted the sentences of the alleged coup-plotters.

There was a crime, they had held a trial (widely condemned as unjust) and there was evidence against Mr Saro-Wiwa.

The regime cares little about membership of the Commonwealth. Gen Abacha had anyway felt snubbed by the western powers when they criticised his three-year transition programme, announced on October 1 when he commuted the sentences of the alleged coup-plotters.

Meanwhile, the international reaction has snowballed. An unprecedented exodus of *ambassadors from Lagos, suspension from the Commonwealth* and a ban on a Nigerian sports team visiting South Africa add to Nigeria's growing isolation. But these and a tightening of existing measures by the European Union are unlikely to change the hardening stance of the Abacha regime to outside pressure.

The reluctance of Britain, the US and other trading partners to take damaging economic sanctions against Nigeria, the only outside pressure which could bring a change of tack from Abuja, is partly through self-interest and *partly lack of faith in the alternative* to this regime.

Companies from Britain, the Netherlands, the US, Germany, France, Japan and others have invested heavily in the country's economy, for others Nigeria is a valuable export market and these countries rely on it for at least some of their crude oil. Indeed, Nigeria is the largest African market outside South Africa and has huge untapped potential in gas onland and in oil and gas in unexplored offshore blocks.

Only an outright oil export embargo would hurt the regime immediately. Yet this seems unlikely after the decision by the EU on Tuesday merely to extend restrictions on arms sales, aid and entry visas for the regime.

A full oil embargo aside, a ban on investment by the multinationals or on the import of spare parts for oil and gas facilities would lead to a dangerous deterioration of the industry. This could add to the environmental damage against which the Ogonis and Greenpeace, the environmental group, have campaigned. It would also mean falling oil revenues, some of which the government and the oil industry are committed to invest in the under-developed oil producing region.

There is another risk. If limited sanctions angered the Nigerian regime, it could nationalise some or all of the Nigerian assets of some or all of the oil majors or bring in other oil companies to replace their operations. There was a reminder of that in the recent visit by a delegation from Iran's oil ministry to discuss opportunities in Nigeria.

There has always been a strong element of nationalism in Nigerian governments and this regime is keen to show the world who is in charge, especially now that it has its back to the wall. There was a reminder of this in July when Mr Dan Etete, the oil minister, blurted out a warning to Shell and BP that their interests in Nigeria could be at risk if the British government continued to discuss Nigeria's expulsion from the Commonwealth. BP was nationalised in 1979 and has only recently returned to do offshore exploration in alliance with Statoil.

Paul Adams

Prevention better than cure says UN refugee chief

Mrs Sadako Ogata, United Nations High Commissioner for Refugees, called yesterday for a new approach to the world's refugee crisis involving systematic conflict prevention and a greater emphasis on development, Reuter reports from Geneva.

Launching the UNHCR's second "State of the World's Refugees" report, Mrs Ogata said her agency could no longer sit at borders and wait for refugees to flood across them but should play "a much more proactive role".

"We live in a sophisticated world, but we are responding in a patchy and short-sighted way to problems of conflict and displacement," Mrs Ogata told a news conference.

The 260-page report puts the number of people looked after by the agency at 27m, only half of whom are actually refugees claiming asylum abroad.

A relaxation of rigid Cold War notions of sovereignty meant that, at the beginning of 1995, UNHCR was helping internally-displaced populations of more than 250,000 in no fewer than 10 countries.

Although the UNHCR, easily the most respected UN agency, has no real problem meeting a 1995 budget of about $1.3bn (£820m), funding of long-term development has fallen steadily in recent years.

The report argues against that decline – even if only for reasons of pragmatic self-interest. "What might have happened in Rwanda if the estimated $2bn spent on refugee relief in the first two weeks of the emergency had been devoted to keeping the peace, protecting human rights and promoting development in the period which preceded the exodus?" the report asks.

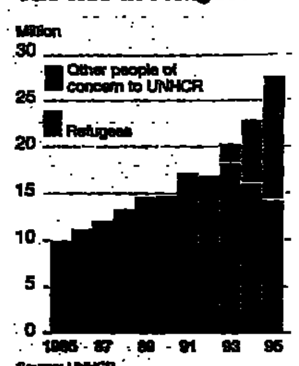
"At what point will the world recognise the cost, in both human and financial terms, of failing to invest in the future?"

In a rare descent into jargon, the report proposes a "homeland-oriented, holistic approach" to the problems of displacement – quick fixes were not sufficient.

Mrs Ogata said it was "not just an expensive wish-list". The new approaches, combining relief work with development programmes and human rights protection had been tried and shown to work in war zones such as Cambodia and Mozambique.

An active international presence produced clear results in El Salvador and Tajikistan, where 600,000 people forced from their homes in 1992 have almost all been able to return.

The rise in refugees



Source: UNHCR

The report says that although the number of conflicts taking place around the world now is the same as 10 or 15 years ago, the nature of the conflicts has changed – civilians are increasingly the target of military action.

While the number of refugees, at 14.4m, is lower than five years ago, the number of internally displaced has risen sharply to reach 30m.

"Massacres and genocide, such as we have seen in Bosnia and Rwanda, should not be taking place at the dawn of the 21st century. Similarly millions of people should not be having to become refugees in order to survive," said Mrs Ogata.

Algerian poll security tightened to curb attacks

By Roula Khalaf in Algiers

Security was tightened in Algiers yesterday to limit potential targets for Islamic militants who have vowed to disrupt today's presidential election.

Fearing an interruption of supplies, Algerians queued outside bakeries and stocked up on basic foodstuffs.

Boycotted by the main opposition parties and taking place amid threats from armed Islamic groups, the election has been billed by Algeria's army-backed government as a way out of a four-year crisis.

While violence in and around Algiers seems to have subsided in recent weeks, bomb explosions continue to be reported around the country. One explosion was heard in the capital yesterday. Officials said an armed group fired at a truck loaded with gas cylinders after failing to hijack it.

Algerians are pinning their hopes on the poll to end the crisis. They have been caught in the struggle pitting Islamic militants against government forces ever since legislative polls were cancelled in 1992.

President Liamine Zeroual, appointed in January 1994, is favourite. The three other candidates are Mr Mahfoud Nahnah, a moderate Islamist opposed to the Islamic Salvation Front (FIS); an anti-Islamist, Mr Said Saadi, and Mr Noureddine Boukrouh, an intellectual with mild Islamist leanings.

A candidate needs to secure 50 per cent of the vote to avoid a second round next month.

The election is being watched in Western capitals and some 200 foreign journalists are in Algiers this week. France has seen a series of terrorist attacks since the summer.

European countries have called for a return to democracy, fearing the spread of violence could lead to an extremist Islamic takeover and increase immigration pressures into southern Europe.

Algeria is a big gas supplier to Europe and is in the advanced stages of negotiating oil and gas deals with western companies such as British Petroleum. The energy sector has been largely spared in this crisis, but worries persist it could be hit by sabotage.

A hooded policeman enforces the curfew in Algiers beside a poster for President Zeroual AP

The government wants a big turnout and has been encouraged by the crowds of Algerians who voted in western capitals this week. Some 102 international observers will monitor the poll, six of whom have been sent by the United Nations. The parties that won most of the vote in the 1991 elections are not taking part.

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NEWS: THE AMERICAS

Securities withheld from civil service retirement funds provide $61bn

Rubin finds cash for six weeks' US debts

By Jurek Martin in Washington

Mr Robert Rubin, the Treasury secretary, yesterday took additional technical steps aimed at *enabling the US government* to pay its debts "through late December".

He converted into cash a total of $61.3bn worth of non-marketable treasury securities *that would otherwise have* been invested in two civil service retirement funds.

This enabled the treasury to issue $57.5bn of cash management bills yesterday, while a Treasury bill *auction today* will generate an extra $48bn. Together this covered $102bn worth *of debt about to come* due, including a $34.8bn repayment made yesterday.

This diversion, Mr Rubin said, was allowed by law and the funds would be repaid with *interest so as to protect the* rights of beneficiaries. The funds "will remain whole and *anyone who says otherwise is* mistaken", he said, adding that he would not touch the much larger social security trust fund, and indeed was not permitted by law to do so.

The action cools the issue of raising the $4,900bn statutory debt ceiling, part of the budget confrontation, for six weeks or so. The impasse has already closed down all non-essential *federal* government operations for two days and had cast doubt on the US ability to discharge *its official* debt.

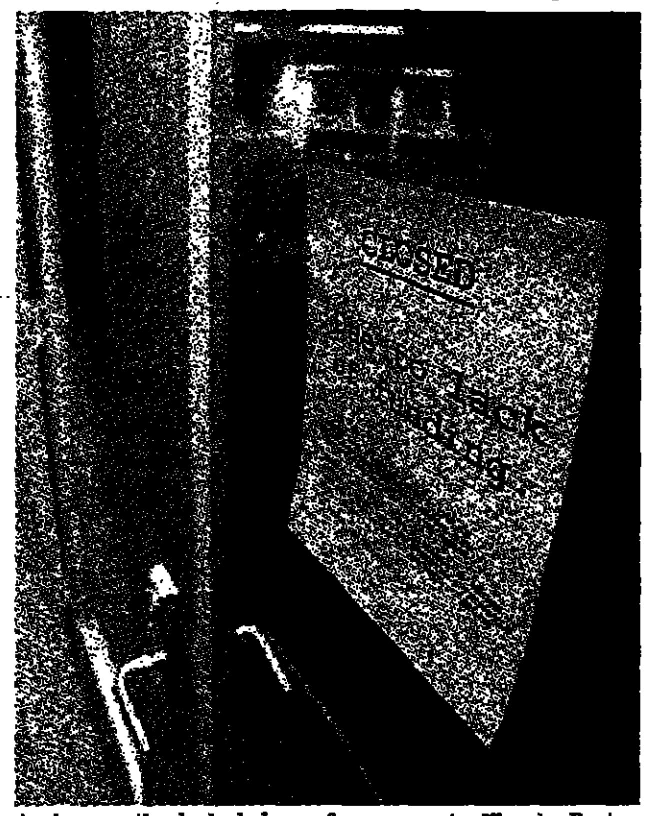
No new negotiations between the administration and the *Republican congressional* leaders were due yesterday, following sharp exchanges of rhetoric *late* on Tuesday between President Bill Clinton, Congressman Newt Gingrich, the *Speaker, and Senator Bob Dole*, the majority leader.

In television interviews yes*terday, Mr Gingrich* raised the prospect of Congress passing legislation that could restore *some* government services, such as the national parks and social security and passport offices, to normal.

But this piecemeal approach was dismissed as "silly" by Dr Alice Rivlin, the budget director, while Mr Mike McCurry, the presidential press secretary, said: "We don't think the Speaker should pick and choose the victims of the current shutdown."

Both sides now expect the deadlock to last for some time, with Mr Gingrich even saying it could take 90 days to resolve completely. But a more immediate problem loomed in the shape of the overall budget reconciliation bill which Congress *hopes to pass by tomorrow* but which Mr Clinton has also threatened to veto.

This bill covers not only regular annual appropriations, even though work on only four of the *13 has been* completed on Capitol Hill, but also $245bn worth of tax cuts and reforms *of the social* safety net.



A sign on the locked door of a passport office in Boston yesterday reflects the budget battle between president and Congress, as the government shuts down for a second day. Reuter

Republicans square up

Budget row may aid outsiders, writes **Jurek Martin**

Senator Bob Dole, the majority leader, faces a worrying test this weekend in Florida in which he must confirm his credentials as the overwhelming favourite for the Republican party's presidential nomination next year.

His concerns may be heightened by a discernible trend in public opinion over the budget impasse in Washington. Although polls blame the Republicans in Congress more than President Bill Clinton for the shutdown of the federal government, they also reveal disapproval of the "politics as usual" that many see as the cause of the crisis.

That appears to offer a clear opening for some of the other nine declared candidates who are not associated, as *Mr Dole* most prominently is, with the politics of the nation's capital.

Mr Dole was the clear beneficiary from retired General Colin Powell's decision not to seek the Republican nomination, but all polls show the majority leader falling behind *Mr Clinton. The latest survey* in New Hampshire, home of the first Republican primary next February, only gave him a 10-point lead (27-17 per cent) over Mr Pat Buchanan, the rightwing polemicist, with the rest of the field in single digits.

The weekend test, in Orlando, comes in the shape of Presidency III, organised by Mr Jeb Bush, son of the former president. It brings together about 3,000 Republicans who will cast votes in a straw poll for their preferred nominee.

It will differ from earlier exercises in Iowa and Maine in limiting participants to one vote a head. Those straw polls, in which votes were cast according to the number of tickets bought, helped Senator Phil Gramm of Texas, who tied with *Mr Dole in Iowa* and won Maine easily in the majority leader's absence.

Florida has already been inundated with negative commercials and mailings, at their *nastiest between the Dole and* Gramm camps but also involving Mr Lamar Alexander, the *former governor of Tennessee* whose whole campaign is predicated on being not a Washing*ton insider*.

Mr Gramm, for example, has distributed a "biography" of *Mr Alexander highlighting* what it charges are his "ethical problems". Mr Dole's state campaign chief has called Mr Gramm "the Darth Vader of negative politics" but has also accused Mr Alexander of mud-throwing in commercials aired in New Hampshire.

Mr Gramm's aim is to emerge as the only conservative alternative to Mr Dole, a role also espoused by Mr Buchanan. The latter goes down well in grass-roots gatherings but has nothing like Mr Gramm's financial resources.

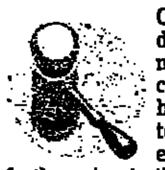
The Florida exercise is really *Mr Alexander's* last chance to establish himself as a threat, which explains the negative *attention he* has been getting. He is a subscriber to the Republican "Contract with *America" but feels it does* not go far enough in handing federal power back to the states.

The Orlando vote could also mean the end of the road for some candidates, such as Sena*tors Arlen Specter of Pennsyl*vania and Richard Lugar of Indiana, both relative moder*ates, as well as others on the* conservative fringe.

Thinking the unthinkable, *Page 16*

AMERICAN NEWS DIGEST

Pollock fails to sell at Christie's



Christie's in New York suffered a big disappointment on Tuesday night when the most important work in its auction of contemporary art, one of Jackson Pollock's historically significant "drip" paintings, failed to find a buyer. Bids of up to $5m were expected for "Number 1, 1952" but were not forthcoming in the event.

This apart, the sale did quite well, with 46 of the 60 lots changing hands for a total of $14.53m. A new auction record of $3m was paid for a work by Barnett Newman, "The Word II", an austere canvas of bands of mainly black and blue, painted in 1954. A mobile by Alexander Calder sold for $992,500 and a silkscreen painting by Robert Rauschenberg made $827,500, at the bottom of its estimate.

Meanwhile at Sotheby's on Tuesday an extremely rare Cook *Islands Rarotongan Head of a Staff God sold for* $530,500, well over twice its estimate and a record price for art from the Cook Islands. The high price reflects its authenticity: it was *probably acquired in the South Pacific around 1800, by a* whaling captain from Martha's Vineyard, and descended through his family. *Antony Thorncroft, London*

Run-off poll for Guatemala

Two conservatives will face each other in a run-off presidential election on January 7 for the Guatemalan presidency, after neither received an absolute majority in Sunday's election.

Mr Alvaro Arzú, a wealthy businessman and a former mayor of Guatemala City, is seen as more moderate than his main rival, Mr Alfonso Portillo, a lawyer representing the party of former military dictator General Efrain Rios Montt.

With almost 98 per cent of the precincts reporting yesterday, Mr Arzú, of the Advanced National party, led with 36.55 per cent. Mr Portillo, of the Guatemalan Republican Front, was on 22.11 per cent. The winner takes office on January 14 for a four-year term. *AP, Guatemala City*

Electric cars for California

Leading carmakers have offered to start selling limited volumes of *electric-powered cars next year in California* in an attempt to persuade the state government to back-track on laws forcing them to market fixed quotas of non-polluting vehicles from *1998*.

Officials from Chrysler, General Motors, Ford, Toyota, Mazda and Nissan are expected to discuss the proposal with pollution control officials in Sacramento *today. The companies* were unwilling to discuss details before the meeting, although they are attempting to secure a compromise which might encourage the natural evolution of the new market *sector* in place of the mandated requirement that they place an estimated 22,000 vehicles on distributors' forecourts in 1998.

This total, 2 per cent of sales, *is due to rise to 5 per cent* in 2001 and 10 per cent by 2003. *Christopher Parkes, Los Angeles*

Chrétien silent on 'spying'

Canadian Prime Minister Jean Chrétien yesterday refused to comment on allegations that Canada had spied on *friendly* countries, but said the country's spy agencies must obey the law. He said he was not briefed on the daily operations of Canada's spy agencies but added: "They have to act within the law."

A former spy with Canada's electronic espionage agency, the Communications Security Establishment (CSE), said in a television interview on Sunday that Canada had spied on friendly countries, including Mexico, Japan and South Korea.

Mexico and Japan are reported to have lodged official protests with Canada. *Reuter, Canberra*

Bouchard 'wants top BQ job'

Mr Lucien Bouchard, leader of the separatist Bloc Québécois in Canada's House of Commons, may announce on Monday that he will seek to become premier of Quebec early next year.

Le Soleil, the Quebec City daily and the French service of the Canadian Broadcasting Corporation, quoted sources close to Mr Bouchard as saying his decision to seek the leadership of Quebec's ruling Parti Québécois and hence the premiership had been taken.

Le Soleil said Mr Bouchard, following the narrow defeat for the separatists in the October 30 referendum, did not want to push Quebec into another one. He *would concentrate* on reorganising the province's strained finances and await a firm constitutional offer from Ottawa before encouraging another divisive debate on independence. *Robert Gibbens, Montreal*

Ecuador bans new banks

Ecuador's government has announced a ban on new banks and financial institutions opening for the next three years. It also tripled the minimum *capital* requirement for existing banks and financial institutions. Those that do not comply with the new requirements will be prohibited from opening new offices or branches.

The move is intended to promote mergers and help reduce the number of financial institutions from the current 160, said Mr Patricio Moreno of the superintendancy of banks. Small lending institutions vying for a share of the market are partially responsible for high interest rates, Mr Moreno said.

"The majority of the banking community favours the new resolution," said Mr Alfredo Arizaga, vice-president of Banco la Previsora. "In the long run it will strengthen the financial sector." *Foreign banks* interested in operating in Ecuador still had the opportunity of investing in existing domestic institutions, he said. *Raymond Colitt, Quito*

NEWS: ASIA-PACIFIC

Legislators vote against proposals to water down colony's civil rights

China's Hong Kong plans condemned

By Simon Holberton in Hong Kong

The difficulties China faces in its takeover of Hong Kong in less than 600 days were graphically underlined last night when the colony's Legislative Council (LegCo) condemned Beijing's plans to water down civil rights law in Hong Kong.

The recently elected council voted 40 to 15 in support of a motion expressing deep concern about China's plans to change the Bill of Rights, a 1991 law which underpins civil rights in Hong Kong.

Since China announced six weeks ago that it planned to do this, and reinstate security and broadcasting laws which had been changed to conform with it, virtually all shades of opinion in Hong Kong have united in opposition to Beijing's plans.

China believes the Bill of Rights will weaken the administrative power of Hong Kong's future government. "This is harmful to social stability, and seriously interferes with China's sovereignty and internal affairs," Wen Wei Po, a Beijing-funded Hong Kong newspaper, said yesterday.

Mr Michael Suen, secretary for home affairs, told the legislature last night that the government rejected this and other Chinese claims. Changes to the law had not undermined the government's ability to govern. "It signifies a lack of trust to think otherwise," he said.

Observers said that an important casualty of the controversy was the reputation of the colony's judiciary. Chinese officials, in their attempt to demonstrate that support for their position resided in high places, revealed doubts about the rights law held by Sir T.L.Yang, chief justice, and Mr Justice Benjamin Liu of Hong *Kong's court of appeal.*

Anson Chan: asked judge for Bill of Rights views on paper

Both men were embarrassed by the revelations and said their views were communicated in private discussions. But Hong Kong's legal community has been shocked by them, with some lawyers expressing doubts about the ability of either judge to pass *judgment on a Bill of Rights* case in future.

Observers also noted Beijing's willingness to sacrifice Sir T.L., a man who has cultivated China's leaders and was seen as the front runner for the position of Hong Kong's chief executive, as the post-1997 governor of the colony will be known. "We are dealing with some pretty ruthless people here," one noted.

Mrs Anson Chan, chief secretary, has ensured, however, that the controversy will run for some time to come. She asked Sir T.L. to commit his doubts about the Bill of Rights to paper for her, a paper which she will find it difficult not to *publish.*

Sins of the son visited on Taiwan tycoon

Laura Tyson on a tale of passion, intrigue and succession in a family-run business

It must have been when the Taiwanese press turned its attentions from foibles of son to failings of father that Mr Wang Yung-ching knew matters had got well and truly out of hand.

The 79-year-old founder and chairman of Taiwan's biggest industrial conglomerate and pillar of the island's business establishment doubtless gave scant thought to the extra-marital dalliances of his eldest son and heir apparent to the Formosa Plastics group. After all, the inimitable patriarch of the petrochemicals empire is the product of a generation which still lives by the mores of old China, and he himself has three wives and 12 children.

But the limits of fatherly indulgence were shattered last week when the local media began unearthing steamy escapades from Mr Wang senior's own past. The last straw may have been when newspapers began citing a Chinese proverb: if the upper beam is crooked, the lower beams will go askew.

The episode holds resonance for many family-run Taiwanese groups navigating the shoals of generational transition. While the Wang family may be an egregious case, other groups confront similar challenges and, like Formosa Plastics, it is not certain that they will successfully survive the handover to the second generation.

For two months Taiwan has been transfixed by a convoluted saga which began with a graduate student at the country's most prestigious university accusing a professor of sexual harassment and evolved into a tale of intrigue, passion and power reminiscent of the courts of imperial China within one of the island's most prominent families.

Revelations that 44-year-old Mr Winston Wang, top manager in the Formosa group and a part-time professor at Taiwan University, was having an affair with Ms Lu An-ni, 26, were little cause for remark in a society which regards extra-marital liaisons as *de rigueur* for men of means. Although posing for a set of wedding portraits with the lady, later inevitably splashed in the press, was perhaps a minor lapse in judgment for the married father of two, Winston's predicament has evoked more sympathy than condemnation.

What is more important, the affair ignited a fierce power struggle in the family, pitting the children of Mr Wang senior's second wife against the third wife and her children. Further complicating matters, the elder Mr Wang's brother, Mr Wang Yung-tsai, has two wives and eight children himself, many of whom hold senior posts in the group. The internecine rows have factionalised the companies, with staff backing various family members.

The elder Mr Wang's third wife is his favourite and although she holds no formal position in the group, she is said to exert substantial control through her five daughters, *all of whom have* prominent jobs, and her considerable influence over her husband.

Mr Winston Wang, who is the son of the second wife, last week conceded defeat. He refused to obey his father's order to break off the relationship, but he publicly apologised for tarnishing the group's image, said he had "learned a lesson" and was banished from the group for a year.

But the façade of harmony within the family has been irretrievably ruptured, and sending Winston into exile may create more problems than it solves. British-educated Winston is widely regarded as the most capable of all the children, having spearheaded the group's successful moves into high technology in spite of his father's opposition.

The long-term future of the group has been cast into doubt, observers say. What if Winston decides to found his own company and not to return to the group? What if third wife and her brood prevent him from coming back? And worst of all, what if his domineering father should pass away without formally nominating a successor, leaving the offspring to fight over the spoils?

Other groups that are candidates for family succession problems include Cathay Life, Taiwan's biggest financial group, the diversified Rebar group and diversified Tainan Spinning. Others, including Far Eastern Textile, Wei Chuan, a foods group, and Pacific Electric Wire and Cable, appear to have managed the transition successfully.

"In the generation of industrialists that is now in their seventies or eighties, the only guy who doesn't officially have more than one wife is C F Koo [who heads the diversified Koo's Group], but they all have girlfriends," *said a well-connected* Taiwanese banker.

Polygamy is not the only factor complicating dynastic succession in Taiwanese industry. Often the generation gap is compounded by a cultural gap as many of the second generation were sent abroad to study and came back Americanised, sometimes with poor Chinese-language *skills* or, worse, business school degrees.

"For those old guys with hardly any education who built up their companies themselves, theories learned in business school don't mean much," said the investment banker. "Many of the older generation just don't trust their kids."

PARTY RIVAL JOINS ELECTION CHALLENGE TO PRESIDENT

A leading political rival of Taiwan's President Lee Teng-hui yesterday joined the race for the island's first presidential elections next March, in a surprise move likely to provoke a decisive split within the ruling party and further polarise Taiwan politics, Laura Tyson reports from Taipei.

Mr Hau Pei-tsun, a former general and prime minister from 1990 to 1993, announced he would join the ticket of presidential hopeful Mr Lin Yang-kang as vice-presidential candidate.

As leader of the opposition faction within the ruling Kuomintang, Mr Hau commands wide support among mainlanders – those residents of Taiwan who fled China's civil war in 1949, who make up 15 per cent of the population.

Mr Hau's entry in the race jeopardises the Kuomintang's prospects of retaining its absolute majority in parliamentary elections early next month. It threatens to intensify public debate over whether Taiwan should become an independent country or unify with China, which regards the island as a rebel province. Mr Hau, who was born in China, supports unification.

Although Mr Lee is still expected to retain the presidency, his probable margin of victory now appears less comfortable than before.

Roh may be arrested on bribe charges today

By John Burton in Seoul

Mr Roh Tae-woo, the former South Korean president, was last night being questioned by prosecutors amid expectations he would be arrested today on bribery charges.

Prosecutors believe Mr Roh, who has confessed to amassing a $650m slush fund, received the money for awarding government contracts and other state favours during his 1988-93 term. Mr Roh said the funds were political contributions, not bribes. The former president would become the first Korean head of state to face criminal charges. He could serve 10 years to life if convicted.

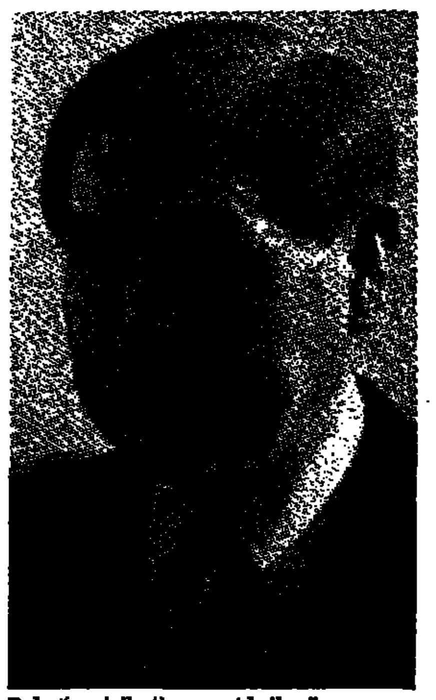
If indicted, Mr Roh is expected to be taken into custody and imprisoned in a special security cell at Seoul's main detention centre. The arrest is likely to end an intensive four-week investigation of his alleged *corruption.*

Mr Roh's appearance at the prosecutors' *office yesterday was his second in two* weeks. Interest is focusing on whether he will confirm, as alleged by opposition parties, that he secretly helped finance President Kim Young-sam's election campaign in 1992.

Such an admission would damage Mr Kim's reputation as a clean politician and expose him to charges that he violated election financing rules. Mr Kim has denied he personally received money from Mr Roh, his former political ally in the ruling Democratic Liberal party.

Prosecutors have interrogated more than 30 leading business leaders to gather evidence on whether their donations to Mr Roh amounted to bribes for defence and construction projects.

Up to 10 executives may also be indicted on bribery charges, though most claimed they were forced to give the money or face *official retribution.*



Roh: "contributions, not bribes"

ASIA-PACIFIC NEWS DIGEST

Philippine woes hit stock market

The Philippine government said yesterday that 75 per cent of the country had been declared a "state of calamity" as the stock market slid for the fifth consecutive day on fears of higher inflation and growing food shortages. A series of natural disasters, including a "super-typhoon" which wrought havoc two weeks ago, and man-made mishaps including poor rice distribution leading to the doubling of rice prices, have caused the Philippine stock market to lose almost 25 per cent of its value in the last few weeks.

Stockbrokers, who until recently were riding on the crest of the fastest growing emerging market in Asia, are now advising foreign investors to steer clear of the Philippine market until inflation is under control. The stock exchange dropped 25.15 points, or 1.1 per cent, at yesterday's close to 2,315.26, almost 25 per cent below its July peak of 2,958. Mr Jo De Venecia, speaker of the House of Representatives, said yesterday the government would grant importers unlimited authority to buy foreign rice in an effort to reduce prices. In the past two months, the government has imported more than 200,000 tonnes of rice, the first time overseas rice has been bought since the early 1970s. *Edward Luce, Manila*

Australians' Mekong bridge deal

Australia and Vietnam agreed yesterday to spend about $60m building Vietnam's first bridge across the Mekong river by the year 2000. The bridge, to be built at My Thuan in southern Vietnam, is Vietnam's highest infrastructure priority, said Mr Gordon Bilney, Australian development co-operation minister.

Mr Bilney and Mr Bui Danh Luu, Vietnam's transport and communications minister, signed a memorandum of understanding in Canberra for the detailed design phase of the bridge. It will replace a ferry service which carries up to 22,500 people, 4,000 tonnes of freight and 5,000 passenger vehicles a day across the Mekong. Australia has already built the Friendship Bridge over the Mekong linking Laos and Thailand. But the future of the second bridge was put in doubt soon after the signing as the conservative opposition said it was inappropriate for Australia to spend so much money on the project. *Reuter, Canberra*

Malaysia admits steel losses

The Malaysian government has admitted what it describes as heavy losses at Perwaja Steel, the state company seen as one of the pillars of the country's industrialisation programme. Mr Anwar Ibrahim, deputy premier and finance minister, said a new management had been put in place at Perwaja. "There is a loss, a heavy loss," Mr Anwar said, refusing to state the size. Mr Lim Kit Siang, leader of Malaysia's main opposition party, quoted a government report saying that up to March this year *Perwaja had an accumulated* loss of M$2.5bn (US$1bn).

Perwaja was set up in the mid-1980s by Dr Mahathir Mohamad, the prime minister, to provide the foundation of Malaysia's entry into heavy industries. There have been reports the government plans to offer Perwaja to Renong, one of Malaysia's biggest conglomerates, controlled by the Malay entrepreneur Mr Halim Saad, possibly in return for allowing him a controlling stake in Telekom Malaysia, the partially privatised telecoms utility. *Kieran Cooke, Kuala Lumpur*

Japan denies Timorese asylum

A group of 21 East Timorese who climbed into the Japanese embassy compound in Jakarta on Monday this week requesting political asylum have been denied refuge in Japan but offered asylum in Portugal. The group said they were fleeing political persecution in their home territory, which was invaded by Indonesia in 1975 after being abandoned by Portugal. This is the third embassy incident involving East Timorese asylum seakers in the past two months in what is turning out to be a regular embarrassment for the Indonesian authorities. *Manuela Saragosa, Jakarta*

Australia set for industrial action

By Nikki Tait in Sydney

Australia was braced for a wave of industrial action last night, as a dispute between CRA, the mining group, and unions over collective bargaining rights threatened to shut down docks and coal mines.

The Australian Council of Trade Unions, the powerful umbrella body, said maritime and stevedoring workers in main ports would begin a five-day strike from midnight tonight. The big mining unions, meanwhile, plan a seven-day stoppage from midnight on Tuesday. The 3,000 workers at CRA's own coal mines have started a 48-hour strike.

With unions in the Metal Trade Federation and the Australian Education Union offering public support, Mr Tim Pallas, a senior ACTU official, said a series of "industry meetings intended to direct action" against CRA and Comalco, its aluminium subsidiary, would be held on November 20. The industries would include *power, oil, chemicals, manufac*turing and transport.

The dispute revolves around a push by CRA, the mining group, to replace traditional union-negotiated "award" wage payments by individual staff contracts. At its large bauxite mining operations in Weipa, northern Queensland, more than 70 workers have *refused to make* the *switch*, and now claim that they are being discriminated against.

They say workers on staff contracts get up to A$20,000 ($14,814) a year more in pay and entitlements for similar jobs. Comalco says "differences averaging A$7,000 have emerged" and would negotiate, but wants a port blockade at Weipa *called off first.*

With a federal election looming in Australia and industrial relations policy set to be a big issue, the battle is as much about national politics as Weipa differentials.

The ACTU claims the erosion of collective bargaining rights is part of the opposition's industrial relations strategy, and warns that its co-operative approach to labour market issues would quickly vanish. "This is the world we'd all be living in," Ms Jennie George, president-elect of the ACTU, said yesterday.

In response, the opposition points out that CRA's push toward individual contracts has arisen under Labor government *legislation.*

"The CRA issue is happening according to the Brereton book and under the Brereton regime," Mr John Howard, opposition leader, said yesterday, referring to Mr Laurie Brereton, federal industrial relations minister. His own coalition "would not sanction discrimination against workers doing the same work".

LEGAL NOTICES

In the Matter of
HSBC HOLDINGS U.K. LIMITED
and
In the Matter of
The Companies Act 1985, section 175

The above-named Company has approved a payment out of capital for the purpose of acquiring its own shares by redemption. The amount of the permissible capital payment for the shares in question is the sum of £30,361,000, US$ 575,000,000 and C$125,000,000 and the date of the resolution for payment out of capital was 13th November, 1995. The Statutory Declaration of the Directors and the Auditors' report required by section 173 of the Companies Act 1985 are available for inspection at the Company's registered office. Any creditor of the Company may at any time within the five weeks immediately following the date of the resolution for payment out of capital apply to the Court under section 176 of the Companies Act 1985 for an Order prohibiting the payment.

By Order of the Board

KHG COALES

Secretary

13th November 1995

ACE AUTOMATICS LIMITED
(IN ADMINISTRATIVE RECEIVERSHIP)

NOTICE IS HEREBY GIVEN pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at the offices of Robson Rhodes, Bryanston Court, Selden Hill, Hemel Hempstead, Herts HP2 4TN on 20th day of December 1995 at 3 o'clock for the purpose of having laid before it a copy of the report prepared by the Joint Administrative Receivers under section 48 of the said Act. The meeting may, if it thinks fit, establish a creditors' committee to exercise the functions conferred on it, by, or under the Act.

Creditors are only entitled to vote if:

(a) they have delivered to us at the address shown above, no later than 1200 hours on the business day before the meeting, written details of the debts they claim to be due, and

(b) there had been lodged with us any proxy which the creditor intends to use on his behalf.

Dated this 10th day of November 1995

N H COOPER and N RUDDOCK
Joint Administrative Receivers

هكذا من الاصل

NEWS: WORLD TRADE

Mexico 'flouting privatisation contract'

By Leslie Crawford in Mexico City

A Belgian dredging company yesterday accused the Mexican government of flouting contracts granted during the privatisation of port services, the first time a foreign investor in Mexico has taken a grievance to an international forum.

The complaint is a blow for President Ernesto Zedillo's government, which is struggling to attract more direct foreign investment to mitigate the effects of a severe recession and financial crisis.

Jan de Nul, one of the world's four largest dredging companies, has lodged a complaint before the World Bank's International Centre for the Settlement of Investment Disputes. The company, in partnership with Tribasa, one of Mexico's largest construction companies, won contracts for maintenance dredging work at seven Mexican ports when port services were privatised in 1993. The privatisation included the sale of government-owned dredges, which were to be partially paid for by providing dredging services.

Jan de Nul alleges that once the vessels had been fully paid for, Mexico's port authorities fell behind in paying for further services and in the commissioning of new work, guaranteed in the privatisation contract. The company says several attempts were made to settle the problem with port authorities and the ministry of transport and communications.

"The final straw came when the Mexican navy was brought in to do dredging work in the port of Manzanillo last month, while our dredges lay idle," said Mr Jan-Piet de Nul, the Belgian company's managing director.

In his letter to the World Bank, Mr de Nul accuses the Mexican government of being "blatantly in breach of contract in respect of the guaranteed exclusivity for private companies on the maintenance of ports". The navy, he argued, should not be allowed to undercut the services of private companies.

Jan de Nul's appeal to the World Bank has embarrassed Tribasa, its partner in Mexico, which depends on government contracts for a large part of its $1bn-a-year construction business. This far outweighs its joint-venture with Jan de Nul, called Mexicana de Dragados.

"It is a very unfortunate letter," said Mr Andrés Caire, Tribasa's vice-president. "We had a meeting with the minister of transport at the end of October and he told us the contracts would be honoured."

Mr Frantz Guns, the manager at Mexicana de Dragados, in which Tribasa owns a 51 per cent stake, said the company had no quarrel with the Mexican government. "Our Belgian partners have clearly lost their heads over this one."

In Belgium, however, Mr de Nul said he felt cheated and disappointed by the way his company had been treated by the Mexican authorities.

Mr Carlos Ruiz Sacristán, the transport minister, said the dredging dispute, including the Navy's presence in the Pacific port of Manzanillo, had arisen due to a "misunderstanding".

"The navy was called in after an earthquake hit the Pacific coast," the minister said. "It was an emergency". Mr Ruiz Sacristán said he had ordered the port authorities to reimburse Mexicana de Dragados for unpaid work.

At the headquarters of the Puertos Mexicanos, however, Mr Marco Antonio di Stéfano, the director-general, said he could not afford to pay for dredging services at the dollar prices agreed before Mexico's traumatic devaluation of the peso last December. "We are searching for new solutions," he said. "Perhaps by offering the companies more work, but at a cheaper price."

In the meantime, a second dredging company, Dragamex, controlled by Boskalis of Holland, says it is close to bankruptcy because of the poor payment record of the Mexican port authorities.

Boskalis, the world's largest dredging company with annual revenues of $500m, says it has also lost custom to dredges operated by the Mexican navy.

Mr di Stéfano said he was also holding talks with Dragamex to try to reach agreement on a new contract. "We are concerned that the navy dredges may become a new state-owned dredging company," says Mr Jan Krygsman, a Boskalis director.

Chinese bank delay concern

By Andrew Jack in Paris

International bankers are to hold talks with Chinese banks amid concerns that some of them are failing to honour letters of credit on time.

The Banking Commission of the International Chamber of Commerce, the business organisation, resolved this week at its twice-yearly meeting in Paris to hold discussions on the topic with the Bank of China and other Chinese banks.

Their action follows growing concern from western bankers and exporters over the past 18 months that Chinese banks are delaying or refusing to meet their obligations in letters of credit. A letter of credit is a promise for a local bank to pay an exporter once evidence of shipment is provided.

Mr Kenneth Smorthwaite, vice-chairman, and Mr Charles del Busto, chairman of the commission, plan to hold meetings in the next few months in an effort to resolve the problems. The commission has set up a formal reporting system so banks and exporters can formally document and notify the commission of problems in their trade with China.

Separately, it is to urge all China's banks to make a written commitment to comply with the conditions of the letters of credit, a standard set of rules for which are set down by the ICC.

The banking commission's bargaining position has been strengthened by China's decision this month to join the ICC and comply with its rules on international trade.

However, Mr de Busto emphasised that he believed many of the problems in trading with China might have been exaggerated, and that he was aware only of a few anecdotal examples of difficulties with letters of credit.

He said some payments were delayed because Chinese officials found the technical language in documents difficult to understand and sent them back for clarification.

Others were part of the normal process of renegotiation that happened in commodity trading, when traders tried to gain time to take advantage of fluctuations in pricing.

In addition, he said some problems were the result of the "explosive growth" in trade with China in recent years, which had stretched the resources of the country's banking staff.

Hoechst set to triple China investment by 2000

By Jenny Luesby

Hoechst, the world's largest chemicals company, said yesterday it was tripling its investment in China to $1bn by 2000 in an effort to become the country's leading foreign chemicals company. Mr Horst Wäsche, director for Asia, said sales to China, Hong Kong and Taiwan had been rising by more than 10 per cent a year, to $680m last year.

The German chemical group had decided to move its headquarters for Hong Kong, Taiwan and China from Hong Kong to Beijing, and had already set up 15 branch offices within China.

Of the world's top five chemical companies, four have identified China as a principal investment target. DuPont of the US is investing $2bn in Asia, a large part of which will be in China, while Bayer and BASF, both of Germany, are investing between $200m and $300m each in the country.

Bayer yesterday announced its sixth Chinese joint venture, a $22m facility to produce chemicals for the rubber and oil industries.

But projects unveiled by Hoechst yesterday suggest it has more manufacturing ventures in the pipeline than its competitors.

The group began investing in China in 1987, when it set up a joint venture producing tobacco filters. This was followed in 1992 by an insecticides factory. This year, it has begun production at four more joint ventures, making industrial gases, car paints and synthetic fibres, and production will start at another two tobacco filter plants within the next few weeks.

Hoechst said yesterday it had committed $340m to these plants and two others that will produce antibiotics and polyester. It was close to exchange of contracts on 10 more plants, and another six had been agreed in principle.

These would take its investments in China to $750m by next year, and $1bn "long before the year 2000", the company said.

The group's aim was to lift its sales in Asia from 12 per cent of the group's turnover of $33bn last year, to 20 per cent of sales by 2000.

WORLD TRADE NEWS DIGEST

BA chief urges free air market

Sir Colin Marshall, pictured left, chairman of British Airways, yesterday called on the UK and US governments to abandon their step-by-step approach to aviation negotiations and move immediately to a transatlantic single air market. Sir Colin told the Wings Club in New York that as airlines increasingly formed cross-border alliances, bilateral negotiations were becoming irrelevant. He said that within a single market, US and UK airlines could together resolve problems such as access to London's Heathrow airport. US carriers' failure to win greater access to Heathrow has prevented the conclusion of a new air agreement between the two countries. "The airport is congested for all of us," Sir Colin said. One way for Heathrow's congestion to be eased was for trading in take-off and landing slots to be permitted. He also said airlines in the UK and US should be allowed to invest freely in one another.

Michael Skapinker, London

WTO sets up regional watchdog

The World Trade Organisation is to strengthen the monitoring of regional trade agreements, in a response to growing concern that proliferating regional deals may be putting the multilateral trading system at risk. The WTO's general council yesterday agreed to back a Canadian proposal to establish a single watchdog committee on regional trading arrangements. The council's chairman, Mr Krishnasamy Kesavapany of Singapore, will consult WTO members on the committee's terms of reference, and the new body could be set up early next year.

The idea for a single committee emerged from a meeting last month of trade ministers of the Quad group of leading traders – the US, the European Union, Japan and Canada. Under the present cumbersome procedures, a separate WTO working party is set up for each notified regional agreement. Some 20 working parties are active. Canada said the move would streamline the WTO's work in checking whether proposed free trade areas and customs unions were consistent with fair trade rules.

Frances Williams, Geneva

Toyota targets Chinese market

Toyota, Japan's largest car maker, is seeking to manufacture engines for small passenger cars in China in an effort to enter the growing Chinese vehicle market. Mr Hiroshi Okuda, Toyota's president, is expected to raise the possibility of a joint venture engine manufacturing facility in Tianjin with Chinese authorities during his visit to China. He is also expected to meet officials in Tianjin to discuss the proposal that Toyota manufacture engines with Tianjin Automotive Industrial Corporation for use in cars made by the Chinese company.

The move represents a bid by Toyota to push forward its strategy in China, where it has been something of a In September, Toyota took a controlling stake in Daihatsu, a manufacturer of small passenger cars, which has been transferring technology to Tianjin Automotive.

Tianjin Automotive produces 60,000 units a year of the Charade, a small passenger car, with technical assistance from Daihatsu.

The Chinese company aims to increase its manufacturing capacity of the Charade to 150,000 units by the end of the year. Toyota is proposing to assist in the production of engines for the larger Charades, which are to be manufactured when Tianjin Automotive's production capacity is increased.

Michiyo Nakamoto, Tokyo

Australia to fund Mekong bridge

Australian ministers said yesterday that they had given the final go-ahead to an A$83m Mekong River bridge project at My Thuan, in southern Vietnam. The bridge will be funded by the Australian and Vietnamese governments, with Australia contributing about A$55m over four years. Construction, which will be managed by an Australian firm, is expected to begin in June 1997 and take about three years. About 20m of Vietnam's 72m people live in the Mekong delta and depend on ferry services.

Australian funding for the 1,360-metre bridge will come from AusAid, the Australian government's international aid arm, and represents the largest infrastructure project it has undertaken to date. The project is designed to assist the building of economic links between the countries. When Vietnam first opened up, a number of large Australian companies seized investment opportunities there, although business attitudes have become more ambivalent as a number of projects and joint ventures have failed to get off the ground.

Nikki Tait, Sydney

■ Canada and Australia yesterday signed a trade and economic co-operation agreement, designed to expand ties between the two countries. The agreement coincided with a visit to Australia by Mr Jean Chretien, Canadian prime minister.

NEWS: UK

The government's programme 'Smooth transition' is sought for Hong Kong ■ Nuclear deterrent will be maintained

Digital TV to be given early go-ahead

By Raymond Snoddy

The government plans to push ahead almost immediately with its bill to ease restrictions on cross-media ownership and to introduce digital television. The new Broadcasting Bill is likely to be introduced in the next few weeks.

The main sense of urgency comes from a desire to launch digital terrestrial television as quickly as possible. It should be able to offer at least 20 new channels of television to most parts of the country. There is thought to be a "window of opportunity" for the terrestrial technology before 120-150 channel digital satellite systems due for launch in the UK early in 1997. take too strong a foothold.

Digital terrestrial will never be able to compete with digital satellite on number of channels but it can offer high quality wide-screen pictures without the need of a cable network or satellite dish. The service can be received on a ordinary set-top aerial although a decoder will be needed.

There has been considerable criticism of the Government's digital terrestrial plans first announced in August. The lack of a firm date for the transition from the existing analogue system to digital - whether 10 or 15 years into the future - has been criticised. There have also been complaints that under existing proposals existing broadcasters are not being given enough digital capacity as of right.

The details of proposed changes to the cross-media ownership rules to allow newspapers to own television stations for the first time, and vice-versa, have also turned out to be controversial.

There has been considerable support for the idea that technology is driving a degree of convergence in the media industries.

But the Government's proposals to exclude newspaper groups with more than 20 per cent of national circulation has angered Mr Rupert Murdoch's News International and has irritated the Mirror Group. Both of them would be prevented by the circulation threshold from owning ITV companies.

Regional newspaper groups are also angry that they will be unable to own television stations in their regions if they supply more than 30 per cent of circulation there.

The television industry will examine the new broadcasting bill particularly carefully to see whether the government has changed its mind on ownership of television companies. It said in May it thought the present ban on any company owning more than two broadcasting licences should stay. There has been intense lobbying to have the limit set instead at 25 per cent of television advertising.

Empire is lost but ceremonial survives

By Hugh Clayton

The Howard Pursuivant Extraordinary was there as were Bluemantle Pursuivant and Portcullis Pursuivant. There was also room in the crowded halls of the Houses of Parliament for Gold Stick in Waiting, Silver Stick in Waiting, the Gentleman Usher to the Sword of State and the Captain of the Honourable Corps of Gentlemen at Arms. Those are all the names of attendants at yesterday's ceremonial at Westminster, and tradition requires some of them to walk backwards.

Prince Philip, husband of the Queen, said in a newspaper interview last year about the role of the royal family in a modern nation: "I don't think anyone would actively volunteer for this sort of job." He might have had in mind the antiquated ceremony, re-enacted yesterday, in which the monarch makes her annual visit to Parliament.

With her for the state opening of parliament were a collection of politicians and ambassadors in suits plus a crowd of lords and officials whose costumes could have been borrowed from Alice in Wonderland and whose titles could have been invented by a scriptwriter for a Monty Python sketch.

The state opening was shunned for many years in the 19th century by Queen Victoria, but revived by her advisers at the peak of Britain's industrial and imperial power.


The Queen and Prince Philip visit Parliament

Although Britain has lost an empire, it has kept the ceremonial.

Behind the state opening lies a complex reaffirmation of the complex relationship between the monarch and parliament – a relationship which suffered its most brutal disruption in 1649 when the Queen's ancestor King Charles I was executed at the behest of his opponents in Parliament.

Yesterday's ceremony at Westminster underlined the submission of the nation's legislators to the Queen as head of state. But although described as "the Queen's speech" her words were written by government officials and approved by the cabinet.

'My Lords and members of the Commons...'

Extracts from the Queen's speech to Parliament

Nato: National security remains of the highest importance to my government. They *will continue to support* the North Atlantic Treaty Organisation and to promote Britain's wider security interests by contributing to the maintenance of international peace and stability.

The United Kingdom's minimum nuclear deterrent will be maintained. My government will encourage a co-operative relationship between Nato and Russia, and will offer further help to countries in central and eastern Europe to consolidate democratic reforms and build stability and prosperity in the region.

Weapons: My government will continue to work to preserve and modernise the Conventional Forces in Europe Treaty. During their presidency of the Western European Union next year, they will work to enhance that organisation's effectiveness. Preventing the proliferation of weapons of mass destruction remains a priority. My government will introduce legislation to ratify the Chemical Weapons Convention. They will pursue negotiations on a verifiable comprehensive test ban treaty and a Convention to ban the production of fissile material for nuclear weapons and other explosive purposes.

European Union: My government will participate in the 1996 inter-governmental conference and contribute to preparing the union for further enlargement. They will work for the continued implementation of the principle of subsidiarity and maintain their efforts to combat fraud. They will promote flexible labour markets and reduced social costs as the best means to improve the competitiveness of the European economy and create a climate for job creation.

United Nations: Reform of the *United Nations and efforts to* enhance the organisation's effectiveness in peace-keeping will remain an important objective.

My government will work to develop the capacity of the United Nations and regional organisations in the prevention of conflict. They will continue to promote a negotiated settlement in the former Yugoslavia. My government will maintain support for the Middle East peace process.

Hong Kong: My government will work for the prosperity and stability of Hong Kong. In the interests of the Hong Kong people, they will seek to co-operate with China on the basis of the Sino-British joint declaration in order to promote a smooth transition in 1997.

Ireland: My Government will continue to build on the present peace and to create the conditions for political progress through inclusive talks. They will facilitate economic development and promote fair and equitable treatment for all people in Northern Ireland. They will maintain close and *friendly relations with the* government of the Republic of Ireland. Legislation will be introduced to continue special provisions required for preserving the peace and maintaining order.

The economy: My government will continue with firm financial policies designed to support economic growth and rising employment based on permanently low inflation. Fiscal policy will continue to be set to bring the public sector borrowing requirement back towards balance over the medium term. The share of national income taken by the public sector will be reduced. My government will promote further deregulation. They will introduce a Bill to extend choice and competition in broadcasting. Legislation will again be brought before you to authorise the construction and operation of a high speed rail *link between London and the* Channel tunnel.

Asylum row erupts

The Labour party accused the government yesterday of proposing tighter controls on immigration and political asylum as part of a lurch to the right designed to mollify Conservative party extremists, Kevin Brown writes. Outside parliament, demonstrators threw flour and orange paint over Mr Brian Mawhinney, the Conservative party chairman, in a protest against the Asylum and Immigration bill.

Mr Blair said Labour supported action against bogus asylum applications. But he urged the government to defuse tensions by referring the bill to a committee. Ministers say that the bill is needed to curb growing exploitation of asylum procedures by bogus applicants. There were 32,830 applications for asylum in 1994, of which only 825 qualified under the United Nations convention on refugees.

It will seek to reduce the number of applications through a controversial "white list" of countries whose residents will be presumed to be free of persecution. There will also be measures to accelerate the asylum appeals process and make employers carry out checks for illegal immigrants.

'Friction' is denied as senior man quits

By Ralph Atkins and John Gapper in London

Mr Peter Middleton resigned last night as chief executive of Lloyd's, dealing a fresh shock to the 300-year-old London insurance market. His surprise decision to quit from tomorrow for a senior management role at Salomon Brothers, the US investment bank, followed long running bitterness towards Mr Middleton by many of those working at Lloyd's, including members of its ruling council.

Mr Middleton, who joined Lloyd's three years ago from Thomas Cook Group, was seen as too sympathetic towards the thousands of lossmaking Names – individuals whose assets have traditionally supported the insurance market – seeking compensation for

LLOYD'S
LLOYD'S OF LONDON

heavy losses in recent years. He was also criticised for failing to understand the intricacies of the market and for forcing too many changes when Lloyd's was struggling to ensure mere survival.

Lloyd's last night denied the resignation was caused "by any source of friction". Officials said Mr Middleton would have been attracted to Salomon by a salary well above the £320,000 ($499,000) he received last year. He will be succeeded by Mr Ron Sandler, who was appointed earlier this year as Lloyd's special projects director.

But Mr Middleton's departure comes at a particularly awkward time for Mr David Rowland, Lloyd's chairman, who is trying to see the implementation of the insurance market's already delayed recovery plan announced in May. It follows the unexpected departure in September of Mrs Rosalind Gilmore as director of Lloyd's regulatory department.

Ms Heidi Hutter, head of the Equitas reinsurance project, which under Lloyd's recovery plan will take responsibility for *heavy liabilities on old insurance* policies, has also announced her decision to leave.

The resignation caused alarm among Names' representatives. Mr Michael Deeny, chairman of the Gooda Walker Action Group, said: "He is a loss to Lloyd's and his departure is a worrying development." Mr Tom Benyon, director of the Society of Names, which represents lossmaking members, said Mr Middleton was an architect of Lloyd's recovery plan, and "to leave before its completion is quite extraordinary".

Mr Rowland cancelled a planned trip to Texas this week to deal with the ructions caused by his chief executive's abrupt departure, understood to have been decided last Friday.

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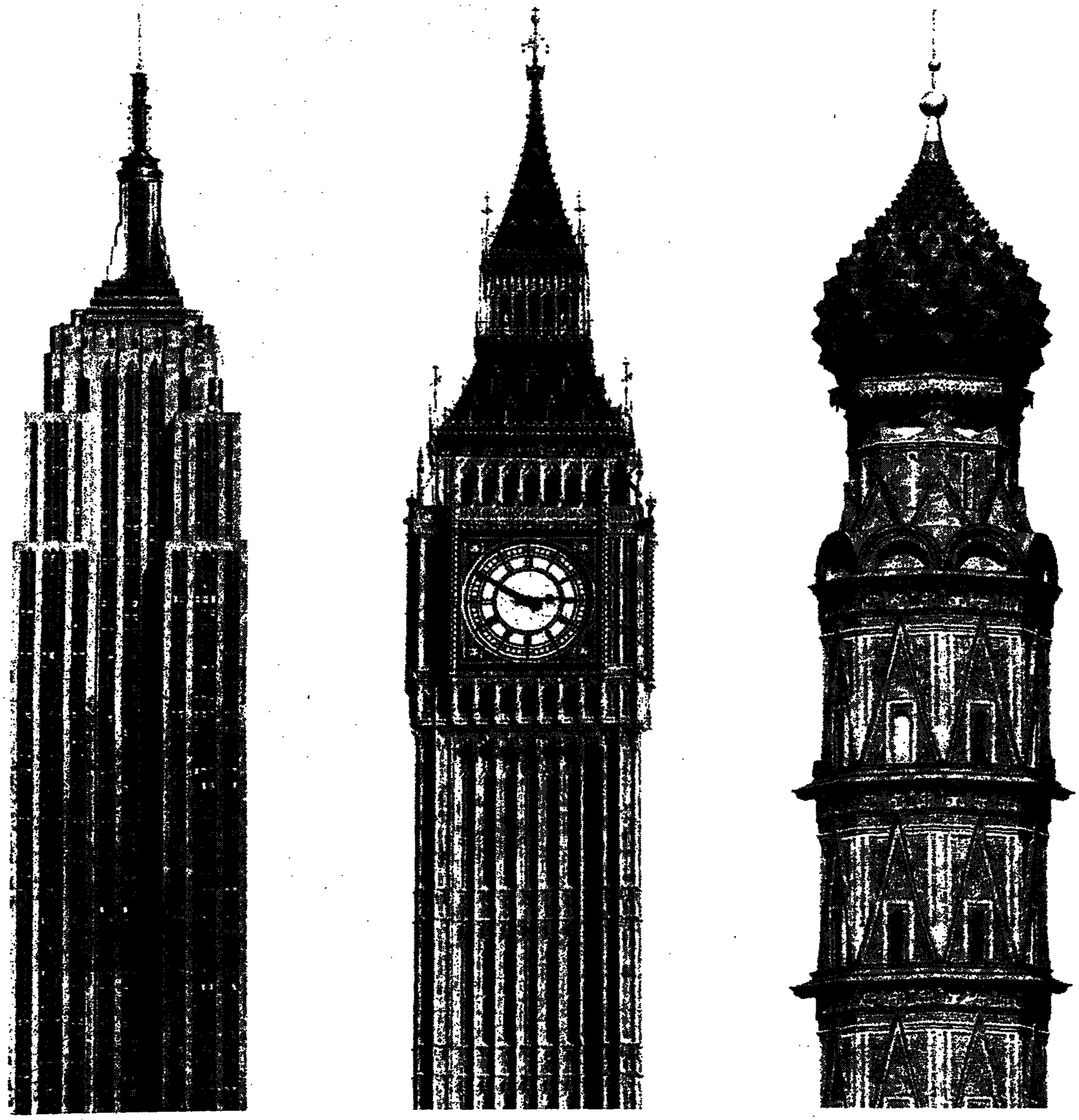


Glaxo appeals against tax investigators

By Jim Kelly, Accountancy Correspondent

Glaxo Wellcome, the pharmaceuticals company, is to go to the Court of Appeal in its fight to restrict the Inland Revenue's powers to collect back tax from multinationals.

Last week the Revenue won High Court support for its right to investigate Glaxo's tax affairs before 1986 – giving it access to details of thousands of past transactions.

Glaxo is trying to win its case against the tax authorities before the government changes the law in the forthcoming Finance Bill, putting the Revenue's rights beyond doubt.

Other multinational companies with potential "long-tail" exposure to tax will hope that, if Glaxo can win in time, the government may have to introduce a time limit on the Revenue's powers.

Either side may want to take the case to the House of Lords in its role as the final court of appeal. "Glaxo is looking for a knock-out decision," said a tax expert. Mr Robert Berg, tax partner with KPMG, said: "If the Court of Appeal finds something repugnant in what the Revenue is doing – an infringement of the rights of the taxpayer – it would have some influence on the course of the legislation."

The Revenue wants to look at Glaxo's past transactions with respect to "transfer pricing" – by which companies allocate taxable profit to the countries in which they operate. The High Court ruling does not mean Glaxo has been found liable for back tax, simply that the Revenue has the power to review past transactions to see if they have been accounted for.

Tax authorities worldwide have become more aggressive in recent years in trying to get their "fair share" from global companies. Estimates of total back tax UK authorities could collect range as high as £1bn.

The ruling confirmed that the Revenue can seek back tax from companies for tax years for which payments are not yet finalised, often for reasons unrelated to transfer pricing.

The economy Much of productivity gap with Germany has closed

Growth 'hampered for 25 years'

By Graham Bowley, Economics Staff

Britain's economy could have grown more than 25 per cent faster each year for the past 25 years if it had not been handicapped by poor economic management, the National Institute of Economic and Social Research says today.

The UK's gross domestic product has grown at an average annual rate of 2.1 per cent since 1970. But the institute estimates that this figure could have been 2.7 per cent if economic management had been at least as good as the average of the world's main economies.

This would have put it well ahead of Germany, France and other European countries instead of falling behind in terms of growth rates. The institute finds that the sharp fall in the proportion of the labour force with no educational qualifications from 70 per cent in 1975 to 44 per cent in 1993 and the rise in the number of people in higher education are likely to boost the UK's long-term economic growth.

But it says that poor stewardship of the economy has led to a cyclical pattern of short booms and long recessions which have harmed growth. Mr Nicholas Oulton, senior research fellow at the institute, says in the institute's latest economic review that the policies put in place after the pound left the European Exchange Rate Mechanism could lead to greater long-term stability and higher growth, although "policy remains subject to manipulation for short-term political gains".

Source: OECD and NIESR

The institute shows that UK annual manufacturing productivity growth slowed from 4.14 per cent between 1960 and 1973 to 1.01 per cent between 1973 and 1979. Since 1979, however, productivity growth has risen to 3.95 per cent per year, faster than in any other Group of Seven country except Japan. This was largely due to a reduction in trade union power as a result of legislation in the 1980s.

In a separate article, the institute shows that three-quarters of the productivity gap with Germany and France that existed in 1979 has now been closed.

It says that British productivity has been poor in industries requiring technical and managerial skills, in industries organised on a large scale and in industries prone to strikes.

In a comparison of UK unit wage costs with those in Germany, France and the US, the institute finds that Britain has generally relatively low unit labour costs in consumer goods industries and relatively high unit labour costs in much of the engineering sector.

British productivity is found to have shown a steady improvement relative to France and the US, while sterling's devaluation after it left the ERM in 1992 gave Britain a substantial competitive advantage in 1993 against other European countries but it remained at a disadvantage compared with the US.

Growth in average earnings remained subdued in September, but this was not enough to prevent the biggest rise in industry's labour costs for almost four years, our Economics Editor writes. Average weekly earnings grew by an underlying 3.25 per cent in the year to September, the Central Statistical Office said yesterday. This was the same rate of increase as in the previous two months. Subdued earnings growth in manufacturing has helped restrain increases in unit labour costs.

The volume of goods bought in Britain's shops fell unexpectedly last month, as unseasonally mild weather allowed people to delay the revamping of their winter wardrobes. The volume of retail sales fell by 0.1 per cent between September and October.

UK NEWS DIGEST

Unions at Ford reject improved 2-year pay offer

Intensive negotiations were continuing last night between trade unions and Ford management to reach agreement on a two-year pay deal for the company's 22,000 manual workers in Britain. Management earlier improved its initial basic wage offer from 3 per cent to 4 per cent from this month, plus a further rise in line with the level of the retail price index in November next year. Union officials rejected the offer, insisting on a cut in working hours.

Unions are demanding a 10 per cent rise on basic rates and a reduction in the basic working week from 39 hours to 37 hours. But Ford has so far refused to make any move at all on the hours' issue. Unions argue that Ford has benefited from substantial productivity improvements at its 12 UK plants in recent years compared with its German units.

The outcome of the Ford negotiations look increasingly dependent on events at Vauxhall, the UK subsidiary of General Motors, where 10,000 manual workers are now being balloted on whether to take industrial action after rejecting a 3.5 per cent pay offer from this month. The result of the Vauxhall vote will be known next Monday, but union officials at its British plants are already privately saying they believe workers have backed by a heavy majority a call for industrial disruption.

Robert Taylor, Employment Editor

Crane company to expand

Liebherr, the German crane manufacturer, is to create 130 jobs and almost double its site in the north-east England city of Sunderland to 5ha in a £5m expansion prompted by strong export demand. The Sunderland site is the company's main manufacturing base for ship cranes, and exports 85 per cent of its output worldwide. It now employs 120 people. It also makes cranes for the offshore industry.

Liebherr is to receive £950,000 in UK government Regional Selective Assistance and a £300,000 business development grant from the Tyne and Wear Development Corporation towards the £5m expansion. The expansion will bring to £20m the sum invested at Liebherr's site since it moved onto former shipyard land in 1989.

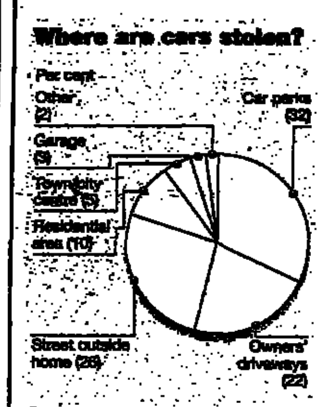
Chris Tighe, Newcastle upon Tyne

Ro-ro capacity to rise

The Port of Hull in north-east England is to double its capacity for roll-on, roll-off North Sea freight at its King George and Queen Elizabeth Docks. Hull opened a £12m ro-ro river terminal in the Humber two years ago to save ships having to lock into the port's docks, but it is already at full capacity, with short-haul European ro-ro traffic now accounting for 40 per cent of Hull's throughput of 10m tonnes of freight a year. Mr Mike Fell, port manager, said the dock expansion was speculative. Associated British Ports, which owns Hull, hopes to attract enough regular users to justify building two more river terminals.

Ian Hamilton Fazey, Manchester

Thieves target car parks



Source: AA Magazine

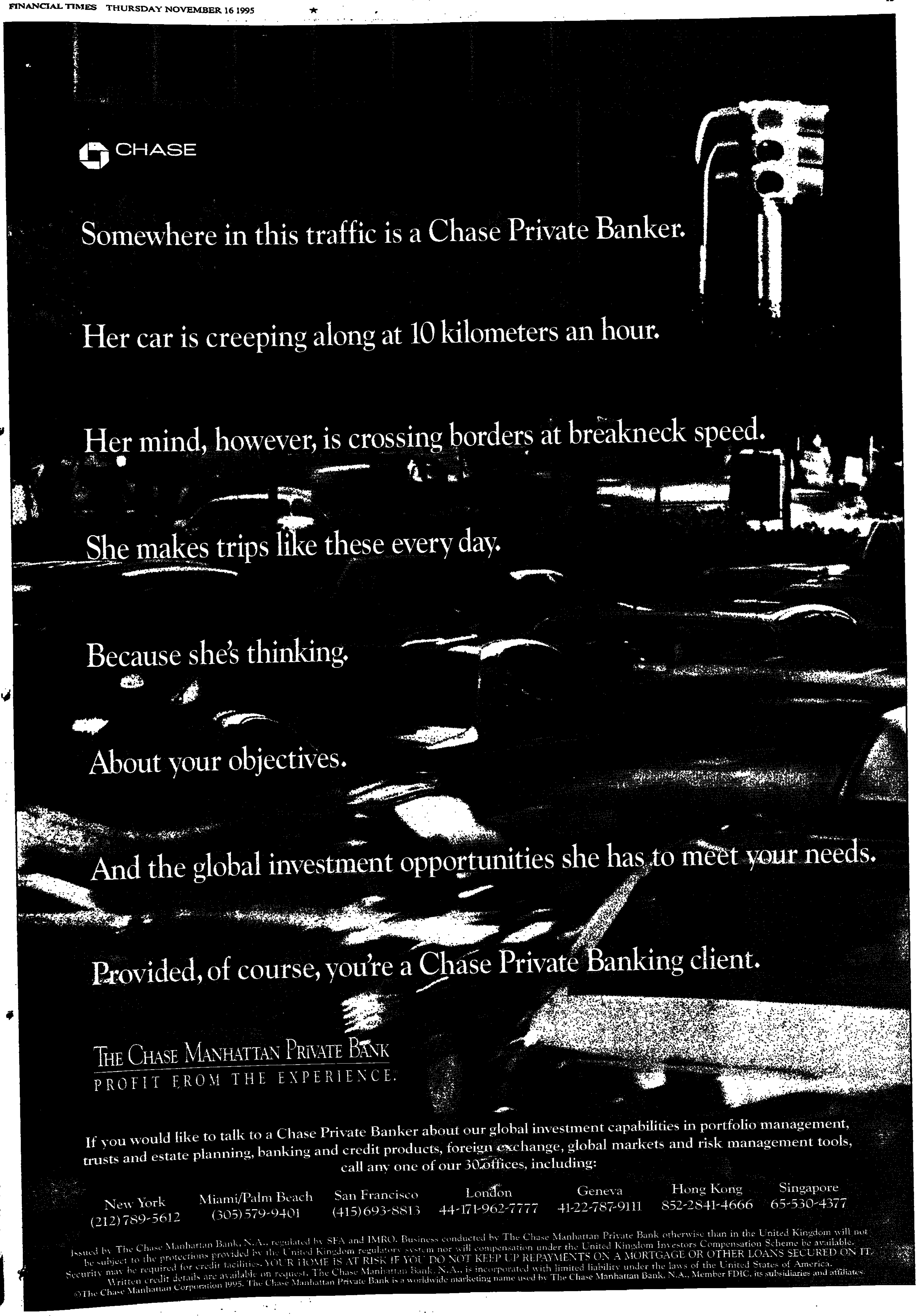
Car parks are the most likely places for car theft, according to a survey of 30,000 drivers for AA Magazine, published for members of the AA motoring organisation. One in five had a car broken into last year and one in 14 had their vehicle stolen. Government figures for England and Wales, however, show car crime has fallen over the past 12 months – largely because of increased use of security devices. That, in turn, has encouraged cuts in motor insurance premium rates amid fierce competition spearheaded by telephone-based insurers. Some 62 per cent of those whose car had been broken into did not claim on insurance policies, the AA said, probably because of the amounts involved were small or because drivers wanted to protect "no claims" discounts on policies.

Ralph Atkins, Insurance Correspondent

Smuggler jailed: A salesman who hid two illegal immigrants in the boot of his car was jailed for three years. Mr Jonathan Devito of Ightham, Kent, told Customs officers at Dover docks in England that he had been on a day trip to France. But when officers searched his hire car they found two Turkish men in the boot. He denied facilitating illegal entry, but a jury found him guilty. The immigrants have been deported.

Monster hit: A Hollywood film about the Loch Ness Monster could bring record numbers of tourists to Scotland next year, the Scottish Tourist Board said. *Loch Ness*, to be launched in February, features *Cheers* star Ted Danson. The board said Mel Gibson's portrayal of Scots hero William Wallace in *Braveheart* and Liam Neeson's *Rob Roy* had given Scotland's tourist industry a big boost.

CONTRACTS & TENDERS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TECHNOLOGY

Keeping in good heart

Powerful new evidence that cholesterol-lowering drugs can reduce mortality from heart disease was presented to the American Heart Association meeting in California yesterday.

The West of Scotland Coronary Prevention Study followed 6,595 middle-aged men, who had high blood cholesterol levels but no previous heart attacks, for five years. Half took pravastatin, made by Bristol-Myers Squibb of the US, and the other half took dummy tablets.

The results showed 32 per cent fewer deaths from heart disease (and 22 per cent fewer deaths from all causes) among the group whose cholesterol levels were reduced by pravastatin.

The study, funded by Bristol-Myers Squibb and conducted independently by Glasgow University, extends evidence shown last year by a five-year clinical trial in Scandinavia with a similar drug, Merck's simvastatin. However, the Scandinavian study, unlike the Scottish one, involved people with a history of heart attacks and/or angina.

Statins, a class of drugs introduced in 1987, work by interfering with a liver enzyme called HMG-CoA that the body needs to produce cholesterol. Four statins are competing in a $4bn (£2.5bn) a year cholesterol-lowering market. Merck is the leader with two, simvastatin and lovastatin, while Bristol-Myers Squibb has pravastatin and Sandoz of Switzerland has fluvastatin.

Kenneth Weg, president of Bristol-Myers Squibb Pharmaceutical Group, says the West of Scotland results should improve "patient compliance" by demonstrating the benefits of pravastatin in primary prevention.

James Shepherd, professor of pathological biochemistry at Glasgow University and lead investigator of the West of Scotland study, says the results do not alter the fact that "the first line of attack for elevated levels of cholesterol should always be to modify diet and lifestyle. Only if that fails should you go on to drug treatment."

Clive Cookson

Marjorie Shaffer visits a sperm bank claiming to store 'top-notch' genes and remains unconvinced

Seeds of controversy

On an ordinary street in the southern California town of Escondido stands a brown, A-shaped building. The sign outside says only North County Bank; another kind of bank shares the premises, although it does not advertise its presence. Tucked inside the building is the Repository for Germinal Choice, a sperm bank that stores the seeds of Nobel laureates and others deemed brilliant by Robert Graham, the 89-year-old founder.

In his two-room office, adorned with smiling pictures of the repository's offspring, many with blue eyes and blond hair, Graham talks enthusiastically about "improving" humanity by spreading the seed of "outstanding men" who have "top-notch genes".

In the next room sit the tanks of liquid nitrogen containing the frozen sperm.

Graham and his administrative assistant, Anita Neff, believe they are on a humanitarian mission. "We are in favour of more bright people because then we can increase the number of people who have the capability of doing something constructive in the world," explains Graham. Nearly all the donors have an IQ of 130 or above, a genius-level score, they claim. The mother's qualities are curiously absent from the conversation.

The donors, whose identities are never revealed, are not paid and only married women whose husbands are infertile can obtain the sperm, at a cost of $3,000 (£1,900). "We enable the wife to become a mother. It gives the youngster the best possible start in life because he has top-notch genes," says Graham. "And it gives the outstanding sperm donors more offspring, so everybody wins."

The donors include an Olympic gold medallist and many "brilliant scientists", he claims. Donors are identified by colour and number along with descriptions of such criteria as general health, personality, ancestry, eye colour, skin and hobbies. One comes from a family of "mathematical geniuses"; another "comes from a long line of talented professional individuals and has the energy and ambition to match his exceptional gifts".

Graham says he combs through *Who's Who of Emerging Leaders in America* and goes to medical meetings to "look over the doctors. I approach the ones who are young and look good and are leaders in their field".

More than 200 children can trace their paternity to the repository, says Graham. Three donors have each "fathered" 20 children, the maximum. All the children are exceptional, he claims. "They are very intelligent and gifted based on the report of the parents, who are proud of their little darlings, and their teachers."

Science Photo Library

Human sperm: most biologists dismiss the notion of 'smart' or 'genius' genes

Lee Connealy is a physician specialising in family medicine who has three children thanks to the repository's sperm. Her husband, a businessman, had had a vasectomy. She says she chose the Olympic medal winner as the donor because he resembled her husband, a physically active man who comes from a family that, like hers, has "good genes".

"There is a lot of testing and investigation of the donor," says Connealy. She didn't want to use an ordinary sperm bank, because "the repository really chooses people who have the same traits as I have, rather than just anybody off the street". She adds: "My kids are absolutely adorable and there is no question that there are good genes involved. It is very obvious when you have good genes. I come from a family with good genes. We are all healthy. No one has committed suicide, no one drinks or smokes, and no one is gay."

Most biologists dismiss the notion that there is anything remotely like "genius" or "smart" genes – or for that matter even that dubious quality called "good" genes. While genes may play a role in intelligence and other behaviours, it is the interplay of the environment and heredity that moulds us, they say.

"No one knows just what role genes play in intelligence – there may never be an answer," says Evan Balaban, a researcher at the Neurosciences Instititute in San Diego. "We don't understand what genius is a product of and we have problems defining what we mean by intelligence. Even if genes have a large effect, it may be due to a particular combination of genes that can't be passed on to your offspring because we produce sexually," he says. In sexual reproduction genes are recombined in each new generation.

Graham, a millionaire optometrist who invented plastic lenses, founded the sperm bank in 1980. He concedes the role of environment, but "the tendency is for high intelligence to beget high intelligence and we are out to help it". He says most people are "deficient in IQ".

The idea of "improving humanity" by "better breeding" echoes the credo of turn-of-the-century eugenicists who believed that a superior race of men could evolve by increasing procreation among the exceptionally gifted. The idea has also been used over the years to justify barbaric ends such as genocide.

In the early 1960s Graham met Hermann J. Muller, a eugenics proponent and Nobel Prize winner who proved that X-rays cause mutations, to discuss a repository. Although Muller is listed as the repository's co-founder, he abandoned the project before it was set up, according to *In the Name of Eugenics* by Donald J. Kevles. Muller, who died in 1967, never donated.

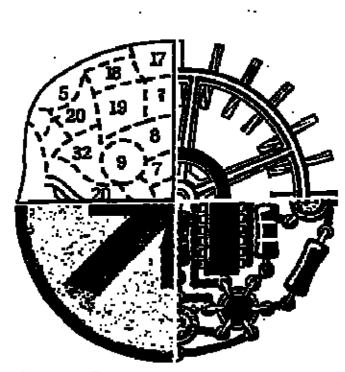
At first Graham tried to collect sperm from Nobel laureates only. Although most turned him down, three did agree to donate, he claims, and one even revealed his name to the press. That laureate, physicist William B. Shockley, once advocated sterilising people with low IQs. Eventually other donors had to be approached.

Nobel winner James Watson, the co-discoverer of DNA's structure, says he was never asked to donate his sperm, even though he is one of the scientists who were to be among the original contributors to the repository, according to an "agreement" signed by Muller and Graham that hangs in the office in Escondido.

"Almost everyone agrees that some component of our success is due to our genes, but what fraction that is is very hard to work out," says Watson.

Arthur Caplan, director of the Centre for Bioethics at the University of Pennsylvania Medical Centre, says he is surprised Graham has not been criticised more widely. "There is a tendency to dismiss him as a fringe person involved in a nutty or cute activity," he says. "I think it is morally pernicious. We are moving quickly towards an entirely different level of genetic engineering, and as science learns the secret of the gene and begins contemplating putting genetic information into the sperm and egg, the debate about Graham should be taken more seriously."

Worth Watching · Vanessa Houlder



Treating memory loss in Alzheimer's

Scientists have identified another possible approach to treating memory loss suffered by Alzheimer's disease patients, according to a report in today's Nature magazine.

The work concerns corticotropin releasing factor (CRF), a neuropeptide associated with learning and memory in rats, which is often at relatively low levels in the brains of people with Alzheimer's disease.

Past attempts to develop drugs that mimic the effect of CRF have failed because they had unwanted side-effects, such as anxiety. A different approach was adopted by scientists at Neurocrine Biosciences in San Diego, who studied the balance between free CRF in the brain and the proportion that was occupied by a binding protein, known as CRF-BP.

They found that concentrations of free CRF in the brain can be increased if the interaction between CRF and its binding protein is blocked using peptides. These blocking peptides were shown to enhance learning and memory without inducing anxiety in rats, which suggests they could potentially have a role in treating the effects of Alzheimer's disease.

Neurocrine Biosciences: US, tel 6196537660; fax 6196587602.

Electronic nose knows best

A second generation of the "electronic nose" – a device that mimics the human sense of smell – has been unveiled. It offers more consistent results than earlier models. The electronic nose uses sensors made of polymers that temporarily change their electrical resistance when they absorb volatile molecules from the air.

Neotronics Technology has developed a production technique capable of precisely controlling the structure of the sensors and reducing their sensitivity to factors such as humidity and temperature.

It expects the new system to find applications among manufacturers that need to control the quality of products manufactured on multiple sites.

Neotronics Technology: UK, tel (0)1279 870182; fax (0)1279 870377.

Smartcard under examination

Schlumberger has designed a high-security portable smartcard terminal to streamline healthcare administration systems. The Medical Digital Assistant uses Apple Computer's Newton handwriting-recognition technology. The system is designed to preserve the security of patients' records. Doctors and nurses "sign" electronic documents using an encrypted identity card.

Countries such as France and Germany are introducing smartcards into their national healthcare systems to improve efficiency and combat fraud.

Schlumberger Industries: France, tel 47467020; fax 47466866.

Movement on arthritis front

Results of a study involving a promising new treatment for rheumatoid arthritis were announced yesterday by the US biotechnology firm Immunex and the University of Alabama at Birmingham, which conducted the trials, *reports Victoria Griffith.*

The new drug aims to block tumour necrosis factor (TNF), which is thought to play a key role in causing painful inflammation in rheumatoid arthritis patients. Of patients receiving high doses of the inhibitor, 64 per cent showed reduction in painful joints and 58 per cent in swollen joints.

The commercial potential for an effective rheumatoid arthritis drug is enormous. About 1 per cent of the world's population suffers from the disease, which usually hits patients in their 30s and 40s. Rheumatoid arthritis can be an extremely serious disease that may eventually cause crippling. Immunex's TNF inhibitor will now move into Phase III trials.

Immunex: US, tel 206 389 4040; fax 206 587 0606.

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هكذا من الأصل

ARTS

Cinema/**Nigel Andrews**

Teenage revolt runs amok in Paris

Lindsay Anderson described his film *If* as "something like the writing on the wall." Matthieu Kassovitz's *La Haine*, which won the Best Director prize at Cannes this year, is the same but more: two hours of heavy action with a cinematic graffiti-gun and the most vivid first film from France in recent memory.

The walls being sprayed by the movie's black-and-white energy and observational wit are in and around a battered Paris housing estate. Kassovitz has clearly set out to make a film about violence that says, "A plague on everyone's house": including those pundits who claim that racism is the key to modern thuggery. The three youths who tramp the *banlieues* in violent solidarity are an Arab (Said Taghmaoui), a Jew (Vincent Cassel) and a black African (Hubert Kounde). They offer a two-finger gesture not just to *les flics* but also to the ethnic bigotries of the Front Nationale. Armies of all-purpose teenage revolt should stick together; the sword is mightier than Le Pen.

Their current grudge is against the police who beat up a local youth, causing a street riot and later the boy's death. A captured police gun, a wrecked gymnasium, a scene depicting their own brutal encounter with police interrogation methods – the story stabs out its punctuation points. But the real "plot" happens in the faces, the dialogue and the nervy, manic camera-work.

The three youths have clearly overdosed on popular culture, this being the age of Saint Quentin Tarantino. One does De Niro's "You talkin' to me?" routine from *Taxi Driver* into his bathroom mirror. Two others quarrel over which was the more macho cartoon character, Sylvester or Tweetie Pie. In another scene still a semi-crazed drug-dealer they visit plays Russian roulette, as if *his* formative experience was *The Deer Hunter*.

In this world, play-acting and apocalypse are in fragile equilibrium. A funny story told by one of the boys, of a man falling from a tall building who says at each storey "So far, so good," becomes the film's subliminal leitmotif. Urban doomsday may be approaching fast, but today's youth is carrying on regardless, with a hectic in-your-face optimism.

The on-rolling rhythm of the handheld camera suits style to message. Its momentum takes in side-show details (a breakdancing session) and crunchpoint showdowns (a last-scene double shooting) with the same brash, anaesthetised élan. And the three main actors have a precipitate restlessness that seems to have tumbled straight out of reality onto the screen.

La Haine does indeed seem like the writing on the wall, in a world where there is little to choose between the so-called victims and their supposed oppressors. The film's own most prominent graffito, dwelt on wryly in an early shot, presents modern youth's most chilling assurance for tomorrow: "L'avenir, c'est nous."

★

A Walk In The Clouds is a consummately cuckoo film from the director of *Like Water For Chocolate*. Alfonso Arau must have had "Magical Realist" stamped on his birth certificate, dooming him to years spent dealing out tales of unrequited love, natural miracles and Latin folk living in Vaseline-lensed landscapes.

Keanu Reeves, the cast's token non-Hispanic, returns from war in 1940 only to be dragged behind enemy lines in the Great War of Love. A pregnant señorina he meets on a train (Aitana Sanchez-Gijon) persuades him to masquerade as her husband, so she can return home without being hit by Papa's thunderbolts. Since Papa is played by Italian actor Giancarlo Giannini, who would need surgery to stop him scowling, we get the thunderbolts anyway. And since *his* papa is played by Anthony Quinn, you can imagine what life is like at "The Clouds," the eponymous wine-growing estate, once Reeves decides to stay on and fall in love.

LA HAINE
Matthieu Kassovitz

A WALK IN THE CLOUDS
Alfonso Arau

INSTITUTE BENJAMENTA
Quay Brothers

KASPAR HAUSER
Peter Sehr

He ends up trying to save the hundred-acre vineyard from the fastest special-effect fire in history. You never witnessed such wet-shirt-flapping workers, such perspiring orange faces of onlookers, such cartoony-looking flames devouring so ditto a hill, and such music rising like rapturous cinders on the thermals. That the press show audience was giggling helplessly by the close only shows that magical realism is a delicate thing: beautiful when it works, barmy when it doesn't.

★

Institute Benjamenta is also barmy, but by design. The Quay Brothers are American-born, UK-based film-makers whose strange shorts – *Street Of Crocodiles, The Comb, The Cabinet Of Jan Svankmajer* – use model animation to conjure creepy Gothic worlds brimming with middle-European bric-à-brac.

Now they have gone live-action and feature-length, but they still seem to be overdosing on Kafka and Mervyn Peake. The title institute is a school for apprentice servants where, amid spooky sets filmed in black-and-white with the fuzzy luminosity of old silents, pupil Jakob (Mark Rylance) tries to rescue teacher Lisa (Alice Krige) from the repressive influence of brother and headteacher Johannes (Gottfried John).

For 20 minutes we are captivated by the deranged eccentricity of the place: the knock on the front door that is answered by a monkey, the mysterious mottoes hung on the walls ("Whatever is forbidden lives a hundred times over"), the glass case containing "Powdered ejaculate of a stag."

But then the gags run out and the minimalism, of story and drama, rushes in. Every creaking line of dialogue is given its echo chamber in time and space; every gesture is drawn out on the rack of quirky overemphasis. Perhaps the Quays thought the result would be hypnotic. But hothouse fantasy worlds need to be kept busy and distracting if we are not all to sit around feeling a touch of the vapours.

★

We are still in central Europe in *Kaspar Hauser*. Peter Sehr's film does for the true-life tale of the foundling "wild man" who shocked Nurembergian society in the 1820s what Werner Herzog's same-subject film wisely refused to do. It uses meticulously argued historical detail to speculate on the story.

Was Kaspar a Crown Prince's bastard son? Was he sold to a Bavarian minister? Did he become a pawn in German state politics? Since we completely to fail to follow the ins and outs of these – two leading figures called Ludwig do not help – we neither know nor greatly care. Herzog went for the dramatic jugular: making Kaspar a tragicomic catalyst for all our dark thoughts and feelings about nature versus nurture. Sehr's film is more like an education pack on German social-political history that has spilled all over your desk.

The Scarlet Letter opens in Britain this week without any preview screenings for the press, despite its impressive above-the-line contributors: director Roland Joffe, stars Demi Moore, Gary Oldman and Robert Duvall, writer Nathaniel Hawthorne. Is something being hidden from us that we should know? I shall catch and review the film next week.

Matthew Bourne's new 'Swan Lake': his imagery is authentically tragic, attuned to Tchaikovsky's mysterious world Alastair Muir

Dance/**Clement Crisp**

The adventures of boys as Swans

Swan Lake is not only the most popular of ballets, it is the most mauled and misunderstood. From its first staging, in Moscow in 1877, score and narrative were subject to revision, and subsequent history has been of constant tinkering. Five versions in Moscow between 1900 and 1924 is no record: of recent years it seems that every ballet company has had to have a staging, so insatiable is public appetite for swan feathers and lush melody. And every company must have its own individually butchered presentation. So we have had Prince Siegfried as an opium-freak and as Ludwig of Bavaria; von Rothbart as villainous tutor, as alter-ego, even as mother-figure: productions modernised, productions aiming to give "what Tchaikovsky intended", and any other mayhem that the arrogance of a producer can conceive. What has been evident on every occasion is that the recension staged in Petersburg in 1894/5 by Marius Petipa with Lev Ivanov is still unrivalled, because blessed with superb choreography and cogent dramatics.

Now, amid rather too many publicity tantaras about "outraged" critics and ballet-lovers in a tizz, we have a modern-dance version by Matthew Bourne for his Adventures in Motion Pictures troupe with – on in-drawn breath – Men as Swans! What I saw on Tuesday night at Sadler's Wells is a curious and intriguing mixture of the imaginatively good and the blatantly under-done.

Bourne has modernised the setting while retaining much of the original narrative. The period – to judge by the hideous clothes – is the 1960s. A prologue shows us the child Prince Siegfried beset by royal duties and dreaming of a swan as symbol of freedom. Grown to manhood, he finds the royal round no pleasure. The relationship with his mother is Hamlet-ish: the shadow of *Mayerling*, which matches *Swan Lake*'s theme of ideal love found only in death, lies dark over the stage. A Private Secretary is von Rothbart (and, in another *Mayerling* gloss, Count Taaffe, with the Prince's "girl-friend" as Mitzi Caspar). After a visit to a seedy club – more *Mayerling* – the Prince (Scott Ambler) visits a lake and contemplates suicide.

Thus far the staging has been typical of AMP's manner in its jokiness and absence of choreographic interest. The action rattles from scene to caricatured scene in Lez Brotherston's clever design, while poor Tchaikovsky is mauled unmercifully. But with the appearance of the swans, the piece becomes musically responsive, mysterious. Bourne is no Ivanov, but his cohort of male swans (chaps naked save for feathery breeches, black v-shapes marking their foreheads) takes to the stage, and we believe.

Swans are large, powerful and sometimes belligerent birds. Bourne has found imagery that conveys this avian nature, and because there is nothing either graceful or emotional about their manner, they appear absolutely swan-like. Far more so than the usual ranks of tutu-ed girls, and never more so than in Adam Cooper's remarkable playing as the swan who incarnates Siegfried's dreams of liberty. Cooper has ever been a dancer of focused presence, and his portrait is untouched by human feeling: it is truly a bird, and all the more potent for that. Nor, be it gratefully noted, is there the least strain of homo-eroticism in the dance. The narrative is what it is, and no "gay" sub-text need bother us in the relationship of the prince with the Swan.

The third act ball reverts, initially, to the coarseness of the first scene: these are an odd lot of royals, with morals as shifty as their manners. (So unexpected.) There arrives Cooper in black – leather trousers as blatant as his sexuality – to make advances on every woman there, including the Queen. He is both Eros and Chaos, and the Prince views the entire scene as an orgiastic nightmare in which the symbol of his desire for freedom is destroyed. (In a brilliant touch, Cooper smears cigarette ash on his forehead to evoke the swan-marking: an exact reflection of Odile's mimicry of Odette's swan-like pose.) The act ends with the Private Secretary shooting the Prince's girl-friend. This is dramatically odd, but serves to send the Prince into madness. Confined to his bed, he sees visions of the swans. They attack him, then attack and kill their leader (Cooper). The Prince dies, his mother grieving over him, while the apotheosis shows Cooper and the Prince united at last.

As an up-dating this *Swan Lake* is, against all the odds, a success. Bourne clearly wants the court scenes to be as hallucinatory as the lake-side encounters, but he has not found a choreographic language as effective as his writing for the swans. What he imposes upon Tchaikovsky in the first act in barely forgiveable. But his vision of the swans, of the lake-side tragedy, is powerful and original. I find it preferable to many of the lumpen activities offered by companies who foist ineptitudes on the public in the name of tradition. Here, in Bourne's imagery, is something authentically tragic, attuned to Tchaikovsky's mysterious world. And with Adam Cooper, the role of the Swan has commanding power and resonance.

Among the other players, Fiona Chadwick makes much of the Queen, and Emily Piercy has a good deal of fun as the Prince's bimbo girl-friend. The score is well played under David Lloyd-Jones.

Swan Lake is at Sadler's Wells, London N1 until November 25.

Theatre/**Alastair Macaulay**

Mother Courage as Elsie Tanner

Whether Bertolt Brecht's famous play *Mother Courage* will stand or fall is decided at each performance by the account given of its title role. Diana Rigg, who has assumed the role at the National Theatre, has its grim humour and its indestructible stamina. Other Mother Courages would give much to have her fabulous log-like cheekbones, her hard jaw, her depth of voice. She really makes many of M.C's tough jokes funny. And her singing, though uninteresting, has the same authority as everything else she does.

Alas, these assets are not enough. Brechtian acting is by no means about soul-baring; but nonetheless many performances in his plays have displayed moving qualities of sheer human essence. There are some nice instances of this elsewhere in this production. When Lesley Sharp, playing Courage's dumb daughter Kattrin, scrubs a dirty shirt with changing rhythm while gazing with growing desire at a pair of handsome red boots, or when Geoffrey Hutchings, as the cook who starts to become Courage's latest lover, listens to the offstage execution of Courage's son Eilif by firing-squad you see several layers of humanity powerfully and affectingly revealed.

When Rigg, however, plucks a chicken while conversing with the cook, or when she listens to the offstage firing-squad that executes her other son, you simply see a celebrated actress making calculated theatrical effects. She speaks the role in a feisty Yorkshire accent and with the most gravelly area of her chest voice. Her Courage means to be a cousin of Elsie Tanner and Bet Lynch, a Northern toughie with a talent for hard repartee and no nonsense, a human institution on whom others depend despite her own private griefs, with the timing and irrepressibility of the music-hall. Clever idea; but uninteresting in (forgive the pun) execution. And the accent deprives us of the greatest beauty of Rigg's acting: her sculpted vowel sounds.

As a production, this *Mother Courage* seems to be the sequel to two productions at the Almeida Theatre during the 1990s: the lauded Euripides *Medea* staged by Jonathan Kent (one of the Almeida's two artistic directors) with Rigg as the heroine and for which Jonathan Dove composed the unusually eloquent choruses, and the superb Brecht *Life of Galileo*, adapted by playwright David Hare, in which Kent again worked with Dove. In *Mother Courage*, Dove has intermittent success; some of the songs drag, but others – notably those for the cook, chaplain, and young soldier in the bar – splendidly heighten the character of each person and animate the ironic complex folk-cum-vaudeville *singspiel* quality of this drama.

Hare's version of the text, like his for *Galileo*, works marvellously. Brecht's timing, his characterisation, his wit are all vividly captured in modern English. Kent's staging suffers from some of the same over-attention to surface as his protagonist's performance. David Bradley's chaplain, James Buller as the soldier in the bar, Michael Gough's very old colonel, Hutchings's cook are fine performances; and Lesley Sharp's overwrought but absorbing Kattrin gives the most heartcatching performance of all. Several other roles, however, are far less well played; and there is some crummy singing. Paul Bond's designs and Peter Mumford's lighting work best when they simply emphasise the vast Olivier stage space. The costumes and props are a muddle, and the drastic highlighting of key dramatic episodes is coarse. Brecht needs better advocacy than is shown here.

In National Theatre repertory at the Olivier Theatre, London, SE1.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Modigliani Sextet: performs works by J. Strauss, Brahms and Tchaikovsky; 2.15pm; Nov 19

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203092100/01
● *Rundfunk-Sinfonieorchester* Berlin: with conductor Heinz Wallberg and violinist Matthias Wollong perform works by Webern, Bruch and Tchaikovsky; 8pm; Nov 17
OPERA & OPERETTA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Die Zauberflöte: by Mozart. Conducted by Sebastian Lang-Lessing and performed by the Deutsche Oper Berlin. Soloists include Bengt Rundgren, Gerd Feldhoff, Barry McDaniel, David Knutson, Kirsten Blanck, Carol Malone and Abbie Furmansky; 6pm; Nov 18

■ BOSTON

CONCERT
Boston Symphony Hall
Tel: 1-617-266-1492
● Boston Symphony Orchestra: with conductor Bernard Haitink and pianist Murray Perahia perform Mozart's "Symphony No.33" and "Piano Concerto in E flat", and Ravel's "Mother Goose", "La Valse" (Nov 18) and "Rapsodie Espagnole" (Nov 17, 21, 22); 8pm; Nov 17, 18, 21, 22

■ COLOGNE

CONCERT
Kölner Philharmonie
Tel: 49-221-2040820
● Kölner Rundfunk-Sinfonie-Orchester: with conductor Peter Eötvös, baritone Dietrich Henschel and Martá Fabián on cymbals perform Sciarrino's "Soffio e Forma" (first performance) and Eötvös' "Atlantis" (first performance); 8pm; Nov 17

■ GENEVA

CONCERT
Grand Casino Tel: 41-22-7319811
● Doulce Pontes: gala concert by the Portuguese fado singer; 8.30pm; Nov 17

■ GOTHENBURG

CONCERT
Göteborgs Konserthus
Tel: 46-31-7787800
● *Göteborgs Symfoniker*: with conductor Göran W. Nilson and violinist Julian Rachlin perform Börtz's "Parodos", Mendelssohn's "Violin Concerto" and Vaughan Williams' "Symphony No.6"; 7.30pm; Nov 23, 24 (6pm)

■ HOUSTON

EXHIBITION
Contemporary Arts Museum
Tel: 1-713-526-0773
● Andres Serrano: Works 1983-1993: the first mid-career survey of the artist Andres Serrano features 52 large-scale Cibachrome photographs. Serrano's subject matter includes the depiction of bodily fluids, religion, racism, homelessness and death; to Nov 26

■ LEIPZIG

OPERA & OPERETTA
Oper Leipzig Tel: 49-341-1261261
● *Moses und Aron*: by Schoenberg. Directed by Gerd Albrecht and performed by the Oper Leipzig; 7pm; Nov 18

■ LISBON

CONCERT
Grande Auditório da Fundação Gulbenkian Tel: 351-1-7935131
● Maurizio Pollini: the pianist performs works by Chopin and Debussy; 9.30pm; Nov 19

■ LONDON

CONCERT
Royal Festival Hall
Tel: 44-171-9604242
● The London Philharmonic: with conductor Matthias Bamert and pianist Anne Queffélec perform Mendelssohn's "Piano Concerto", Martin's "The Four Elements" and Beethoven's "Symphony No.5"; 7.30pm; Nov 17
EXHIBITION
British Museum
Tel: 44-171-6361555
● After Marathon: Money, War and Society in fifth-century Greece: coins of the Athenian empire in the 5th century BC, as Athens rose as the predominant power in the Mediterranean world; from Nov 21 to Mar 3
JAZZ & BLUES
Royal Festival Hall
Tel: 44-171-9604242
● Stanley Clarke, Al di Meola and Jean-Luc Ponty: the bass guitarist, guitarist and violinist join forces for the first time in an unplugged setting. Part of the London International Jazz Festival; 7.30pm; Nov 18
THEATRE
Barbican Theatre
Tel: 44-171-6388891
● A Patriot for Me: by Osborne. Directed by Peter Gill and performed by the Royal Shakespeare Company. Osborne's play is a gripping depiction of a man determined to conceal his *background and personality at any cost*; 7.15pm (matinees: Sat 2pm); Nov 17, 18, 20, 21, 22

■ MUNICH

EXHIBITION
Haus der Kunst Tel: 49-89-211270
● Sigmar Polke - Remix: new work on paper by the German artist; from Nov 17 to Jan 21
OPERA & OPERETTA
Nationaltheater
Tel: 49-89-21851920
● L'Italiana in Algeri: by Rossini. Conducted by Antonello Allemandi and performed by the Bayerische Staatsoper. Soloists include Ferruccio Furlanetto and Caroline Maria Petrig; 7pm; Nov 18, 21, 26, 29

■ NEW YORK

OPERA & OPERETTA
Metropolitan Opera House
Tel: 1-212-362-6000
● Il Barbiere di Siviglia: by Rossini. Conducted by Adam Fischer and performed by the Metropolitan Opera. Soloists include Jennifer Larmore and Ramón Vargas; 8pm; Nov 17, 20, 24, 27, 30

■ OSLO

DANCE
Norske Opera Tel: 47-22-429475
● Three Ballets: the Norwegian National Ballet with the choreographies "Four Temperaments" by Balanchine, "Women Song" by Sund and "La Ronde" by Tetley. Conductor is *Emmano Florio*; 7.30pm; Nov 17, 18 (6pm)

■ PARIS

CONCERT
Salle Pleyel Tel: 33-1 45 61 53 00
● *Orchestre National de France*: with conductor Jeffrey Tate and pianist Leon Fleisher perform works by R. Schumann, Britten and Dvorák; 8pm; Nov 17
Théâtre du Châtelet Tel: 33-1 40 28 28 40
● Emanuel Ax and Michel Dalberto: the pianists perform works by Brahms and Schoenberg; 5pm; Nov 19
EXHIBITION
Centre Georges Pompidou
Tel: 33-1 44 78 12 33
● Dessins surréalistes: vision et technique: *drawings by Surrealists* from the museum collection. Including works by André Breton, Man Ray, Max Ernst and Joan Miró; to Nov 27

■ PITTSBURGH

CONCERT
Heinz Hall for the Performing Arts
Tel: 1-412-392-4900
● Pittsburgh Symphony: with conductor Marek Janowski and flutist Robert Langevin perform Creston's "Threnody", Ibert's "Flute Concerto" and R. Strauss' "Ein Heldenleben"; 8pm; Nov 17, 18, 19 (2.30pm)

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● András Schiff: the pianist performs the first 24 preludes and fugues of Bach's "Das Wohltemperierte Klavier"; 7.30pm; Nov 17
Musikverein Tel: 43-1-5058681
● *Wiener Philharmoniker*: with conductor Zubin Mehta and flutist Wolfgang Schulz perform Mozart's "Symphony No.29" and "Flute Concerto, KV 313" and Ravel's "Daphnis et Chloé" and "La Mer"; 7.30pm; Nov 17

WORLD SERVICE

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European Money Wheel
Nonstop live coverage until 14.00 of European business and the financial markets

17.30
Financial Times Business Tonight

Midnight
Financial Times Business Tonight

Economic Viewpoint · Samuel Brittan

Thinking the unthinkable

The US is not about to default on its debts. But the standoff between president and Congress over the budget is bound to trigger discussion of default risk premiums

So far US and world financial markets have taken the conflicts between the president and Congress over the US budget remarkably calmly. The strong inference is that there is no real expectation of the US government defaulting on the interest payments due on its debt. This view will be strengthened by yesterday's US Treasury announcement of special devices to enable the administration to get through to the end of December.

The delay in paying some federal salaries and the closure of federal offices are of lesser importance, except as part of the political game. The US is not about to enter a Mexican-type debt crisis.

A game of bluff over the debt ceiling has often occurred in the past. Usually, however, it has has been a Republican president at odds with a Democrat Congress which has been in favour of spending. A Republican Congress which wants a spending standstill is more novel.

The president is obviously trying to attribute the continued deadlock in negotiations with Congress to his desire to safeguard federal social spending, while Republicans are anxious to blame it on his failure to accept the target of a balanced federal budget by 2002. An eventual compromise will have to embody the balanced budget principle. Congressional leaders will do more harm than good to US financial standing if they backtrack on this principle for the sake of a quick settlement.

Meanwhile, there is a case for looking at the *theory* of default risks by first-world governments in the context of international bond yields without prejudging the US outcome. For we can no longer assume, in the famous words of a former head of Citibank, that "countries don't go broke".

The starting point for such an analysis must be the large international spread of bond yields – even among the Group of Seven main industrial countries. These go from less than 3 per cent on Japanese government 10-year bonds to over 11½ per cent on Italian government bonds of similar maturity. The US has enjoyed yields of under 6 per cent.

Many different factors go into these differentials. The foundation stone is the world real rate of interest. This is not directly measurable, as most countries do not have well established markets in indexed government bonds. But the yield of under 3¾ per cent on longer-maturity UK indexed bonds may provide some approximation.

One can give give a simple formula to explain nominal interest rate differentials, even though the variables remain partly a matter of guesswork. What would a German investor contemplating buying a US government bond expect to receive? It would be:

- the going international real rate of interest
- PLUS a premium to cover the expected inflation rate *in Germany*
- PLUS another premium or discount to cover the expected movement of the dollar
- PLUS a risk premium to guard against his central expectation on either German inflation or the movement of the dollar being wrong.

Until recently this formula would have covered all the relevant elements. Let us go briefy through the traditonal items. The investor in Germany is not directly concerned by US inflation. He is concerned with the real value of his interest rate receipts and eventual capital repayment *converted into D-Marks of constant value.* This is affected by German inflation plus or minus the likely movement of the dollar. Thus the small interest-rate premium that German bond yields have over American ones does not necessarily indicate that German inflation is expected to be higher than American. It is more likely to suggest that the dollar is still undervalued in relation to fundamentals and is expected to bounce back further over the next decade.

The risk premium is the most tricky element to define. It is not the same as the inflation expectation, but the extra reward the holder of non-indexed stock requires to insure against his central estimate of inflation being wrong. The premium could be either positive or negative.

If we make a few educated guesses to fill in the formula, we might say that a German investor in US bonds would expect:

- a real return of 3¾ per cent per annum
- PLUS a German inflation premium of 2¼ per cent
- PLUS a risk premium of ¼ per cent
- MINUS a discount of ½ per cent for expected average annual appreciation of the dollar.

Over a 10-year period one would expect the exchange rate to move in the opposite direction to comparative inflation rates. But the relationship is far from exact. French bond rates are around ¾ percentage points higher than German ones even though the inflation rates of the two countries are almost identical. The continuing differential may represent a residual lack of credibility about the continuation of low inflation in France, which is a more recent achievement than in Germany. But a doubt about Economic and Monetary Union could also contribute to the differential. So could any possibility whatever of a modest French devaluation before Emu conversion parities are set in stone. Each of these fears may have a very small probability; but cumulatively they contribute to the yield differential.

The UK has had a bond yield differential against Germany of nearly 1½ percentage points or twice that of France. This suggests an all too obvious market verdict on the likely course of Britain's exchange rate and inflation rate. It is consistent with other evidence that financial markets have little confidence in the government's inflation target of 2½ per cent or less in the medium term, but have rather more confidence in the 4 per cent upper limit of the government's range.

Do default risks have to be added to the formula given above for explaining bond yields differentials? Credit agencies have given most leading western economies triple-A ratings. These are defined by the Franco-British credit-rating agency IBCA as "obligations for which there is the lowest expectation of investment risk". Among the G7 countries the only exceptions are Canada and Italy. These latter ratings indicate, according to IBCA, merely a "very low" expectation of investment risk.

So far the US government's triple-A ratings have remained. IBCA has, however, placed the US "on rating watch for a possible downgrade". Should it be lowered and the other credit rating agencies follow suit – and we are talking very hypothetically – the results would be serious in economic terms. For it would mean that over and above the inflation and exchange rate risks and other elements listed above, a new item – risk of default – would have to be added to the factors which enter into US long-term interest rates. This would have a depressing effect both on the US and the world rate of growth and further swing the balance of macroeconomic risks from inflation to deflation.

But this is not the most serious risk. The US budget is the only one in the world where changes can be large enough to influence the international real rate of interest. The fall in US bond yields over the last year has presupposed a new grouping of political forces in favour of a balanced federal budget, achieved over seven years perhaps, but sincerely intended. If this expectation becomes a victim of the political crisis, the effect on American and on world real interest rates could be more serious than that of any temporary delay in paying federal employees. It is for this reason that – whatever one's personal political outlook – the insistence by the Republicans on a balanced budget commitment from President Clinton is to be welcomed.

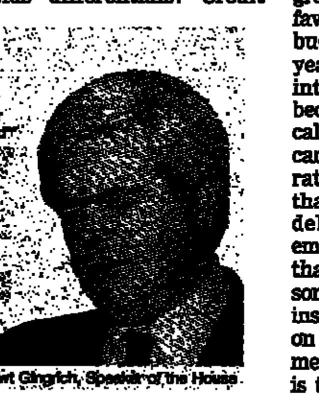
Ratings of the G7 countries

Bill Clinton, US president

Sovereign ratings and assessments*

Country	IBCA Longer-term	S&P Longer-term	Moody's Longer-term	10-year bond yield†
Canada	[illegible]	[illegible]	[illegible]	[illegible]
France	AAA	AAA	Aaa	7.1%
Germany	[illegible]	[illegible]	[illegible]	[illegible]
Italy	AA-	AA	A1	11.6%
Japan	[illegible]	[illegible]	[illegible]	[illegible]
UK	AAA	AAA	Aaa	7.8%
US	[illegible]	[illegible]	[illegible]	[illegible]

Source: IBCA, UK Treasury · *Oct 28 1995 † Nov 8 1995



Newt Gingrich, Speaker of the House

Hollywood stars have returned to Japanese television advertisements, says **Emiko Terazono**

Tokyo takes a shine to Tinseltown

Dennis Hopper, the veteran film actor, may be known in Hollywood for playing sinister roles, but in Japan he is recognised as the man having a tantrum over his yellow rubber duck in a television commercial for bath salts.

After a brief lull, big Hollywood names are back in Japanese television advertising. Along with Hopper, they include Sharon Stone, Madonna, Harrison Ford and a number of others whose latest performances might take some of the shine off their image if shown in the US or Europe.

The trend appears to be inspired in part by the yen's appreciation – which reduces the costs of hiring celebrities – and by the desire of many companies to raise their profile. But it is not without critics in the advertising industry.

"The use of any star is likely to dull creativity since an advert would rely solely on big box office names rather than a good idea," says an official at a leading Japanese agency.

Television exposure for Hollywood stars in Japan is not new, Charles Bronson's aftershave campaign in the early 1970s being one of the first.

At that stage, Americans and Europeans were still rare on the streets of Tokyo, and his appearance won the product immediate recognition.

"Foreigners gained attention due to the curiosity factor," says Mr Kim Walker, president of Strategic Planners International, a media and advertising consultancy.

During the late 1980s, the height of the economic "bubble", Japanese consumers regularly saw names such as Arnold Schwarzenegger, Mike Tyson, the US boxer, and funk legend James Brown promoting anything from drinks to instant noodles.

Hollywood stars joined the rush for money – while stipulating in their contracts that the advertisements' airtime must be limited to Japan.

After the 1990 Tokyo stock market crash and the decline in earnings, corporations were forced to curb costs, including advertising expenditure. "The atmosphere was of frugality – the exact opposite of what Hollywood stars convey," says Hidekazu Aizawa, senior manager at Dentsu, Japan's largest advertising agency.

Back on the box after taking a break: Harrison Ford

Advertising spending fell in 1992 and 1993, with the figure for 1993 totalling Y5,127bn ($51bn), down 10.5 per cent from its peak in 1991.

Television advertising, which accounted for a third of all advertising expenditures, totalled Y1,589bn that year, down 5.4 per cent from 1991.

The decline in spending resulted in a more direct style of advertising, with straightforward presentations of products and explanations of why consumers should buy them rather than vague images, or flaunting flashy stars.

However, consumers and corporate advertisers grew weary of unimaginative advertising and the stars from Tinseltown drifted back.

Expectations of an economic recovery have also helped recent advertising spending.

In 1994, advertising spending rose 0.8 per cent from the previous year to Y5,168bn, its first rise in three years.

Moreover, the yen's appreciation and the rise in the cost of hiring Japanese celebrities have made foreign stars, whose contracts are usually in US dollars, more economical.

"If a Japanese rock singer and a famous Hollywood star costs more or less the same, many companies will choose the latter," says an advertising agency representative.

Hiring Japanese stars will cost an advertiser between Y30m and Y100m. Harrison Ford, who assumes the role of a blue-suited salaryman in adverts for Kirin Beer, is estimated to have been paid around $1.5m (£940,000) to $2m, while the industry estimates the contract for Madonna, who appears in commercials for shochu, a Japanese liquor, to be about $2m.

On the debit side, problems can arise when the celebrity overshadows the product. The impact of using a foreign star, moreover, is lost on consumers when one celebrity appears in a number of commercials.

For example, after seeing Charlie Sheen promoting Tokyo Gas, Philip Morris and Madras shoes, consumers are left confused about which products he advertises.

Meanwhile, the appearance of Sting, the UK rock celebrity who has campaigned against destruction of the rain forests, became controversial when he appeared in a promotion for a resort complex in southern Japan which locals allege is ruining the environment.

In spite of the criticisms by pundits, some commercials can be entertaining. Take, for example, a commercial for Itoham Foods, a leading processed meat manufacturer, featuring Sylvester Stallone.

Some English speakers are left wondering whether the action star in a tight white tuxedo presenting friends with a box of ham does not suggest the product's other meaning – a hammy performance. But Akira Tanaka of Itoham is unabashed. He admits the company was not aware of the English slang meaning but adds: "We did use Sean Connery before him."

LETTERS TO THE EDITOR

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US constitution lacks balances to make it work

From Mr Boris Allan.

Sir, Though Americans are fond of pointing to the checks and balances in their constitution, the current legislative fight between the president and the Republican Congress is illustrative of the checks written into the US constitution – without any balances. Any balances depend upon a certain acceptance, tolerance, and commonsense, sadly lacking with today's divided government.

When the US constitution was written, the "people" enshrined in that document were not a diverse group, they were principally white male property-owning Christians who shared a common culture and a common language of discourse (slaves, Indians, and the poor were not part of the picture). At that time, everything was smaller, and members of the First Congress could not hide behind sound bites, were not protected by their staff (they had none or few), and their campaigns were not financed by interest groups. The "founding fathers" probably never even considered a situation where individual candidates would spend more than $20m to gain a Senate seat, or foresee a situation where legislators would be so unpatriotic, so pigheaded, so short-sighted, to put the US in default.

The US constitution is more than 200 years old, and it is showing its age. The founding fathers defined a system of government for a small nation governed by a group of like-minded individuals of a similar heritage, who wanted to preserve their privileges. The system they developed depends on consensus among those who govern. Modern (ethnically diverse) America lacks the sense of community needed to make the constitution work.

Boris Allan,
7412 Birch Avenue,
Takoma Park,
Maryland 20912, US

Competition obstacle is issue for UK business

From Mr Tim Melville-Ross.

Sir, In his article on business, Europe and Labour ("Lost voice of business", November 10), Philip Stephens asserts that the only businesses to have spoken out on Europe are those "who have kept faith with Margaret Thatcher's Little England".

Business scepticism about a single currency and opposition to the high labour costs of the Social Chapter, as espoused by the Labour party, has little to do with being a "Little Englander", and everything to do with trying to maintain competitiveness in the face of considerable odds.

Of course businesses want the government to have a constructive and positive relationship with Britain's European partners, but this does not mean welcoming with open arms all that comes from Brussels, especially if it seems irrelevant or indeed harmful to business interests.

In any case, businesses have yet to feel the full benefits of the single market. A recent Institute of Directors survey showed that 35 per cent of directors continue to face serious administrative obstacles when doing business with Europe in the form of excessive red tape, VAT restrictions, customs controls, trade restrictions and regulatory differences, which put up barriers to free trade.

Business wants Britain's political parties to say "No" to EC regulations or any other measures which hinder their ability to compete both within Europe and internationally, and which will damage Britain's economic interests in the long term.

Tim Melville-Ross,
director-general,
Institute of Directors,
116 Pall Mall,
London SW1Y 5ED, UK

Nuclear states have no agreement on restraint

From Prof. R.V. Hesketh.

Sir, Permit me to pinpoint the "factual inaccuracy" complained of by Mr John Major "Summit colleagues wrong on N-tests, says Major", November 11/12) in the paragraph adopted by all Commonwealth governments, other than the UK, in regard to French nuclear tests. In Section 4(a) of the second decision adopted by the parties to the treaty on the non-proliferation of nuclear weapons, at the 1995 review and extension conference held in April and May, the nuclear-weapon states do *not* agree to "exercise utmost restraint"; they only agree that they *should*. The factual inaccuracy complained of is that the heads of Commonwealth governments assert that the nuclear-weapon states have *agreed* to "exercise utmost restraint". They haven't and the prime minister is correct, though some would say the point is a technicality.

The irony is that, subsequent to the review conference, the French government has voluntarily bound itself to "exercise utmost restraint". This freely accepted obligation is stated in a letter of September 28 1995 written on behalf of the French government by its London ambassador to Mr Llew Smith MP and others. So the French government has accepted an obligation which other nuclear-weapon states have not – but has not honoured it.

R.V. Hesketh,
Lower Stone,
Berkeley, Gloucs, UK

FT close to acknowledging a great art form

From Mr David Mordecai.

Sir, I was delighted to see jazz getting some coverage on the arts page ("Openings", November 6) – especially for Ornette Coleman the altoist (and only occasional tenorist).

If in your obit for Kingsley Amis (October 23) you had instead made mention of his love of jazz and "other" serious music the FT would be sending the right signal about one of the great art forms of the 20th century.

More jazz please!

David Mordecai,
33A Wealthy Heights,
35 MacDonnell Road,
Mid Levels, Hong Kong

Relatively familiar

From Mr Tony Vernon.

Sir, I am moved to comment on Lucy Kellaway's article "Five steps to being a chief exec" (November 13) referring to the new-found familiarity of telephone operators with callers.

Having for some time been a user of the Talking Pages freephone information service, I notice that the same "Hello, Tracy speaking..." culture has been introduced to this service. That this approach enhances the user-friendliness of such organisations' interface with the customer could pass without further argument.

What a pity therefore, that the relationship is only skin deep. During a recent call to Talking Pages I recognised the operator's west-country accent and, having lived there for a time, I inquired exactly where she was from.

No sooner had she started to say Frome than she checked herself and insisted that such information could not be given out.

While I appreciate that in this age of increasing telephone nuisance there is a need for high levels of security, I would have thought that introducing pleasantries into such conversations could be a bilateral as well as unilateral activity.

Otherwise, congratulations to BT on an excellent service.

Tony Vernon,
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FINANCIAL TIMES

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Thursday November 16 1995

Apec's tasks in world trade

In Bogor, Indonesia, last year, the member countries of the Asia Pacific Economic Co-operation forum agreed to a skeletal plan to liberalise their trade. The intention was to liberalise the trade of the more developed countries by 2010 and of developing countries by 2020. Now, in Osaka, they have to put the flesh on the bones. It will prove no easy task.

Apec is extraordinarily diverse: in wealth, its 18 members range from Japan to Papua New Guinea; in population, they vary from China to Singapore; in location, they span half the globe; and in resources, they vary from land-rich Australia to people-rich Japan. What then do they share? Only that they are not Europeans and that they all consider trade important. Collectively, they also matter: members generate 60 per cent of world output and almost half of world trade.

Apec's main aim has been to liberalise trade. But the difficulties that have emerged suggest the obstacles may not be much smaller than at the global level. It is hardly surprising, for example, that Japan and South Korea have found it as hard to abandon protection of agriculture in favour of their Apec partners as they did in the Uruguay round.

What then can – and should – be expected from this meeting? One valuable contribution would be resistance to US bilateral pressures on trade. Another is the informal dialogue with China, ideally preparing the way for completion of its long drawn-out negotiations over accession to the World Trade Organisation.

Yet the most important task is to work out how Apec can best serve as a catalyst for global liberalisation. For this, some ambiguities must first be cleared up.

Japan's idea is that Apec should not begin a formal negotiation, but work through peer pressure. Countries should agree a timetable for presenting their own trade liberalisation plans, for scrutiny and discussion. A decision must also be reached on whether Apec liberalisation should be non-discriminatory or whether it should become a bloc that could negotiate reciprocally with the rest of the world.

Creation of a formal negotiating forum within Apec, let alone a discriminatory, free trade agreement, would have damaging effects on outsiders. It seems unreasonable for Malaysia, say, to discriminate in favour of Chile, against Bangladesh. Given Apec's size, formal negotiations within it would also, inevitably, tend to be a substitute for negotiations within the WTO.

True, a plan for discriminatory liberalisation might force the Europeans into global negotiations. But it is just as likely to split the world down the middle. Apec should try to secure trade liberalisation, but also remember that discriminatory liberalisation may well not be better than none. Discrimination imposes costs. Apec needs to admit this now.

Deck clearing

Those looking for a clear strategic direction in the parliamentary programme unveiled in the Queen's Speech will be sorely disappointed. As it enters its last full parliamentary session before the next general election, Mr John Major's administration unsurprisingly has put tactical political advantage before serious legislative purpose.

His government faces an unprecedented Labour lead in the opinion polls. Many Tory MPs believe that it will soon be impossible to claw back sufficient support to win an election which must be held before the summer of 1997. Mr Major's precariously small majority meanwhile forces the prime minister to minimise the risk of rebellion from the right wing of his own party.

So the principal purpose of the package of measures announced yesterday is to emphasise the points of difference between Conservatives and Labour in the approach to the election.

It is true that some of the bills – on the establishment of a high-speed Channel rail link and on cross-media ownership – represent the day-to-day business of government in a changing world. The reinstatement of changes to divorce and family law meanwhile mark a welcome rebuttal of recent opposition from some on the moral right of Mr Major's party. But the politically high-profile legislation on asylum seekers, on nursery school vouchers and on grant-maintained schools is intended above all to mark out points of difference with Mr Tony Blair's Labour party.

In one respect, there is no need to lament the absence of a more substantive programme. Too often in the past 16 years the Conservatives have confused a frenetic pace of activity in parliament with good government. Too many laws have meant too many bad laws.

The latest batch of measures will also be largely irrelevant to the eventual outcome of the general election. The forthcoming Budget, the performance of the economy over the next year, the conclusions of the Scott report into arms sales to Iraq, and the capacity of the Conservative party to maintain a semblance of unity over European policy will be the more decisive factors.

The Queen's Speech, however, highlights a more fundamental flaw in the legislative process. The peculiarly British custom by which all substantive new bills must be announced and drafted in time for the state opening of parliament intensifies the pressures in Whitehall which lead to hasty and ill-prepared bills.

It loads on to the first few months of the session parliament's scrutiny of the legislation, increasing the risks that badly-drafted measures will make their way into law. If legislation was agreed and introduced more evenly throughout the year, the government would lose one of its political totems but it would deliver better laws.

Curious UK pay

Yesterday brought another batch of employment and earnings data indicating that the UK labour market is not what it once was. Were this the fourth year of a normal recovery, observers would be talking of inflationary wage spirals, and the danger of paying every worker the same "going wage". But instead they are marvelling at the moderation – and variety – of 1990s wage patterns: and wondering how long either feature can be expected to last.

The latest figures show that UK employees, on average, accepted a real cut in living standards over the last year, despite the fact that unemployment fell by nearly 250,000. To the government, this is evidence of the success of curbing the unions and deregulating the labour market, but there is only mixed evidence for this.

Government policy has certainly played a part in keeping a lid on the service sector, where wage growth is the model of restraint, averaging only 2¼ per cent over the year, compared to 4¼ per cent in manufacturing. Part of the unusually large gap can be put down to the government's public sector wage bill freeze. Earnings in public sector-dominated sectors such as education, health and social work grew by a mere 1.4 per cent over the year, compared to nearly 4 per cent in the financial services sector.

Yet longer-term changes – some of them related to 1980s deregulation – have also affected service sector wage trends, in particular the growth in the number of part-time and female employees. Both categories tend to earn less than their full-time, or male equivalents.

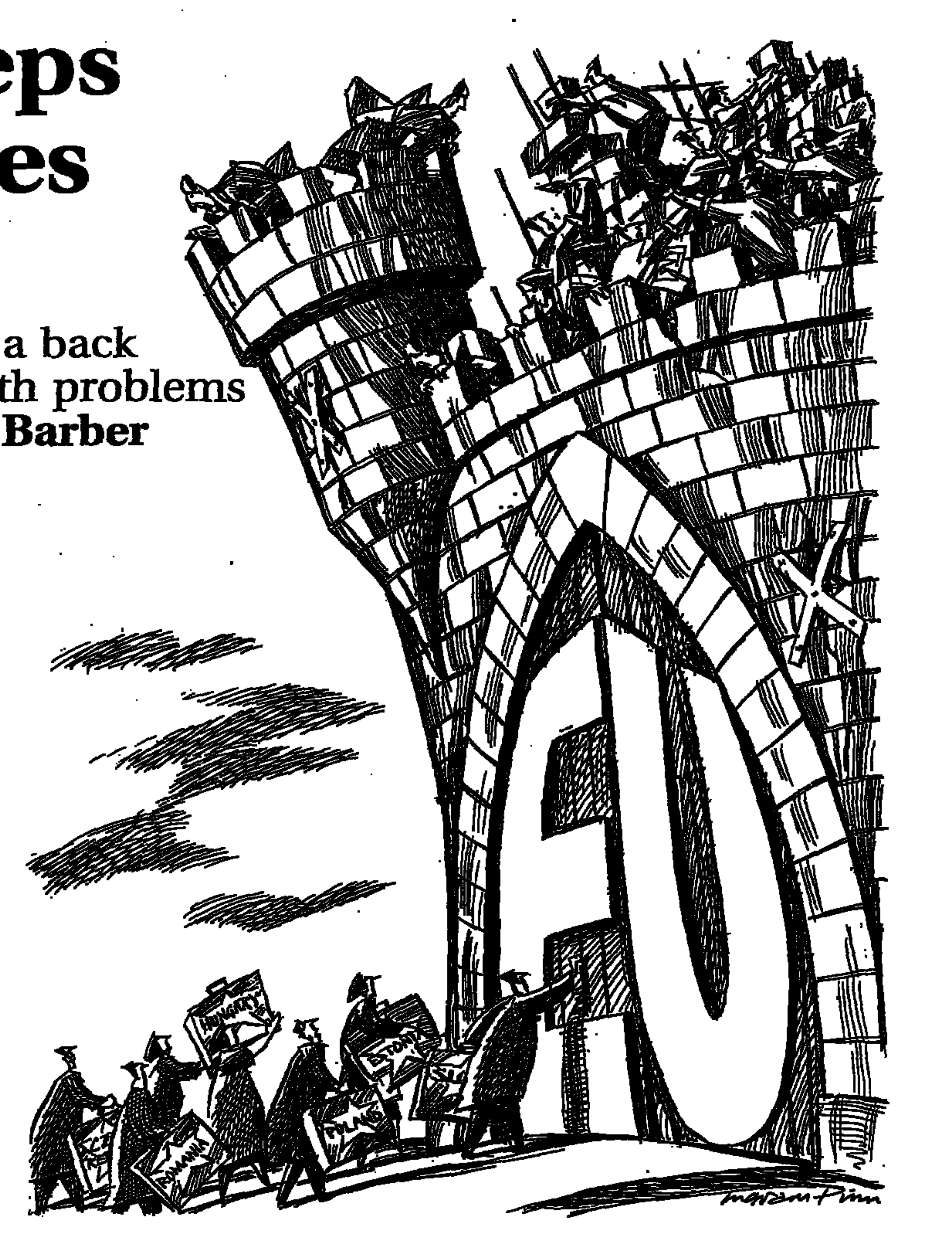
In the manufacturing sector, however, it is less obvious that government policy has weaned wage bargainers from their tendency to favour real wage growth over increased employment. Nor – as car workers wait to judge the outcome of the present pay round at Ford motor company – has the notion of a "going wage" lost its relevance.

In services, real wages have risen 1.4 per cent since the third quarter of 1992, while employment has risen by nearly 500,000, or 3.1 per cent. But in the manufacturing sector, real wages grew by around 4¾ per cent, alongside a modest 58,000, or less than 1¼ per cent, rise in employment.

With productivity growth in manufacturing having dropped sharply since the end of 1994, employers have thus faced a significant rise in unit labour costs over the past 12 months. While this does not – yet – imply a rapid increase in inflation, it will make it more difficult to combine stable economic growth with higher manufacturing employment in the years to come. In short, if Ford workers set the trend, and achieve anything close to the 10 per cent wage rise they are demanding, UK manufacturing may soon be back on its long-term downward trend.

Brussels keeps shut the gates to the east

Enlarging the EU has taken a back seat as members grapple with problems closer to home, says **Lionel Barber**



If the European Union has a mission for the millennium, it is enlargement to the east. Integrating the former communist countries of central and eastern Europe with the capitalist west is the stuff of which history and heroes are made.

Yet the EU's enlargement project is faltering. Critics point to a lack of political will and imagination, while Brussels officials confess that the scale of the challenge is far greater than first thought when the original promise of membership was made in June 1993.

"The level of seriousness about enlargement is not minimal, it simply does not exist," says a senior Commission official. "If this kind of approach persists, expansion to the east will have to be postponed for at least a decade."

Five eastern and central European countries have so far applied for EU membership: Hungary, Poland, Romania, Slovakia and Latvia. Five more are likely to do so: the Czech Republic, Slovenia, Bulgaria, Estonia and Lithuania. Malta and Cyprus have won a pledge to open accession negotiations six months after the conclusion of next year's intergovernmental conference, most likely in mid-1997.

EU leaders have yet to establish a timetable or a pecking order for the admission of these new members. They have barely begun to consider the implications for the Common Agricultural Policy or regional aid which account for two thirds of the EU's annual budget of Ecu80bn (£65bn).

Previous rounds of enlargement have created a union that stretches from the Mediterranean shores to the outer Arctic circle. But the admission of the central and eastern European candidates raises questions about the diversity that the union can accommodate.

First, the only land border the EU now shares with Russia is that of Finland. Admitting the eastern European states would expose the Union's eastern flank to former Soviet republics such as Belarus, Ukraine and Moldova. Inevitably, security questions arise, especially if the new entrants were to join the Western European Union, the EU's fledgling defence arm.

Second, eastern enlargement poses questions of economic adjustment dwarfing those linked to the earlier accession of Spain and Portugal (1986) or Greece (1981). Although there was a sizeable gap between the standards of living of those southern entrants and those of the existing member states, the gap is much larger for central and eastern Europe.

Bulgaria and Romania, for example, enjoyed a per-capita GDP of just over $1,000 in 1993 based on purchasing-power parity, according to the World Bank. The Czech Republic stood at $2,710, Hungary at $3,350 and Slovenia at $6,490.

The scale of the gap raises doubts about whether these economies could cope with the competitive pressures and high standards imposed by the EU's internal market. The European Commission rubbed home the point this year with a list, running into several hundred pages, which set out administrative and legal procedures by which EU legislation must be adopted and implemented by applicant countries. According to a Czech diplomat, the Brussels white paper highlighted the hurdles still in front of full EU membership. But it also suggested that enlargement was slipping down the order of priorities in Brussels at a time when the EU is grappling with its own institutional future.

Fresh thinking might have been expected from the high-level group charged with preparing next year's EU intergovernmental conference. But the Reflection Group working on the agenda has laboured under a restricted mandate, and its soon-to-be published report is unlikely to contain a blueprint for a union of 25-plus member states.

The impression that enlargement is receding as a priority has grown since the informal EU summit in Spain in September. Ostensibly, EU leaders were supposed to engage in free-wheeling debate about the shape of the union in the 21st century; but one participant describes the session as "badly prepared" and "very unimpressive".

The summit agreed a plan for tackling enlargement, starting with institutional reforms at next year's intergovernmental conference. Decisions on moving to monetary union will take place in 1998. A new budget package by 2000 would then put forward a new a new deal between net contributors and beneficiaries, taking account of the needs of the applicants from the east. "Only at this point," says a French diplomat, "we can begin serious enlargement negotiations."

Yet if the time taken for the accession negotiations with Spain and Portugal is a guide, there would be a delay of several years. The final agreement would then require ratification by all 15 member states. It could be 2005 at the earliest before Poland, the Czech Republic, Hungary and Slovenia could join.

When pressed about the delays, EU diplomats and Commission officials point to the Maastricht treaty's commitment to hold an intergovernmental conference next year. The unknown question is how far the conference will overcome opposition, notably from Britain, to improvements to the functioning of the union through measures such as extending qualified majority voting. Without such reforms, most believe that managing a 25-member union would be impossible.

Uncertainty over the planned monetary union could also damage prospects for enlargement. A delay in Emu would trigger a crisis of confidence so severe that it would be virtually impossible to imagine the EU responding with accession talks with the eastern Europeans, says a French diplomat.

Similarly, Mr Jacques Chirac, the French president, is unlikely to respond to calls from Mr Helmut Kohl, German chancellor, for more political union unless he can bet on monetary union. Few member states are likely to ratify next year's intergovernmental conference until they are sure that Emu remains open to all, rather than being an exclusive political arrangement built around France and Germany.

Here the Commission has a crucial role as arbiter and ideas catalyst. It will unveil two papers on the reform of the Common Agricultural Policy and structural funds ahead of next month's EU summit in Madrid, the two policies most affected by enlargement.

On regional aid, the Commission has calculated that it would cost an extra Ecu38bn a year if the present policies were extended to all 10 applicants. Officials argue that the eastern economies could not absorb the amounts they would be paid, which would range from 7 per cent of gross national product in Slovenia to 34 per cent of GNP in Bulgaria and Romania. Already, the Phare aid programme, which committed Ecu4.2bn between 1990 and last year for boosting market economies in central Europe, has experienced difficulties in finding suitable projects to fund.

One proposal is to set a ceiling on the amount of structural funds existing countries and future member states can receive. The unofficial figure circulating in Brussels is between 3 per cent and 4 per cent of national gross domestic product. However, such a ceiling would run into opposition from countries such as Greece which would face real cuts in aid after becoming accustomed to a drip-feed from Brussels.

Extending the Common Agricultural Policy eastwards could be even more expensive, since the subsidies would encourage expansion in output in farm-intensive economies. The application of the policy in these countries would trigger a rise in food prices and create a new class of super-rich farmers.

Mr Franz Fischler, agriculture commissioner, appears, therefore, to be moving toward recommending lengthy transition periods lasting between seven and 10 years for the eastern applicants. These would most likely be coupled with the imposition of strict production quotas and, by implication, the continuation of border controls.

At a conference of European leaders in Berlin, organised by the Herbert Quandt Foundation and the Financial Times, Mr Ruud Lubbers, former Dutch prime minister, suggested that it might be necessary to find new forms of transitional membership. This might help the central and eastern Europeans to meet EU standards in sensitive areas such as immigration.

Yet this would challenge the traditional EU approach of insisting that new members adopt the *acquis communautaire*, the written (and unwritten) set of rights and obligations developed since the Treaty of Rome in 1957. Weakening the *acquis* might also encourage other member states to follow the UK approach of selective co-operation or "variable geometry", weakening the solidarity and cohesion of the union.

Speaking at the same conference, Professor Jeffrey Sachs of Harvard Institute for International Development, an economics adviser to Poland, Estonia and Slovenia, called for bold new thinking to avoid enlargement becoming bogged down in the EU's internal wrangling.

He produced a six-point plan including measures to help the candidates eliminate last year's Ecu6.4bn trade deficit with the union. This would involve the EU switching from safeguards against cheap imports and anti-dumping measures to a common competition policy for the whole region.

In return, the east Europeans would renounce subsidies to state enterprises and their claims to large-scale regional aid under the EU's structural fund programme. "The central Europeans need markets, not charity," said Prof Sachs.

Enlargement may be seen as inevitable – even desirable – by the EU. But none of its leaders yet seems ready to admit that it will require sacrifices and changes in the traditional EU approach.

One member of the Reflection Group says it is time to break free of old thinking. "The worst thing about the situation is that people say it's too big and too difficult. All that is true, but we have to do it. If we don't do it, the consequences will be even worse."

· O B S E R V E R ·

Heads I win

■ Princess Diana may be making a terrible mistake in spilling the beans on yet more aspects of her once private life. The British public will discover next Monday evening. A European audience will have to wait a bit longer before deciding whether Theo Waigel is wise to rush into print – on a no less delicate matter.

Hardly has the German finance minister drawn breath from his cracking little idea about fining countries that breach Maastricht deficit criteria than it emerges that he is beavering away on a tome about the beauties of a single currency. Like the new coinage, no-one yet knows its title.

Obviously Waigel's high-wire act – of belonging to a government committed to a single currency whilst leading a party (the Bavarian CSU) which is highly sceptical of abandoning the trusty D-Mark – is insufficient of a challenge. So why not complicate things a bit further by consigning his thoughts to print?

Cup in hand

■ No crass Beaujolais Nouveau-style marketing campaigns needed to encourage the Russians to drink more vodka. The average Russian male now drinks half a bottle of the stuff every day, which adds up to a stiff 14.5 litres of pure alcohol a year.

Needless to say, what pleases the drinks manufacturers leaves the sociologists cold. Alexander Nemtsov, chief scientific adviser to the Centre for Alcohol Policy, frets that the country's collective binge is setting families at each others' throats, filling the streets with drunks, and generally cutting off the country's men in their prime. It's too readily available and it's too cheap, he reckons.

Russia's lawmakers seem to agree. Yesterday both houses of parliament voted to override President Boris Yeltsin's veto of a law aiming at tighter state controls on the sale of alcohol.

But the sober-suited brigade will not necessarily get very far. The last anti-booze campaign was that waged by Mikhail Gorbachev. All the thanks he got was a steep fall in his popularity ratings combined with a gaping hole in the budget.

Orwellian

■ The concept of a communist seems to be a distinctly flexible one in the lexicon of Chancellor Helmut Kohl. Mention the PDS, the successor to the east German communist party, and the German premier will spit with rage. Never mind that 35 per cent of people aged between 18 and 24 voted for the PDS in last month's elections in Berlin – Kohl gives the impression he thinks of them as a bunch of Stalinist murderers.

Faced with real communists, Kohl changes his spots entirely. As the first western head of government to make an official visit to the Chinese army since 1989, Kohl has this week been drawing attention to the troops' importance in China's development – somehow neglecting to mention their importance six years ago in Tiananmen Square...

Tick tock

■ When Nick Durlacher took over as chairman of the Securities & Futures Authority at Monday's board meeting, he was apparently mildly taken aback to be presented with a large gift-wrapped parcel from Mappin & Webb. Surely it must be destined for Christopher Sharples, the outgoing chairman of the self-regulatory organisation?

Opening it gingerly, Durlacher discovered what he was later heard to describe as a "distinctly naff" clock. Sharples sprang to his rescue and guided him to the inscription on the underside marked Regulator. Durlacher promptly turned the object round and found the word Westminster (as in, presumably, the melody of the time-piece's chimes).

The new chairman is unlikely to need hourly reminders of the relevance of Westminster opinion on his activities. Alistair Darling, Labour's City spokesman, has made plain his distaste for the principle of self-regulation, so Durlacher may not have to suffer his clock for all that long.

Net pets

■ Psst! Wanna call up Naomi Campbell on your computer screen – clad in some strategically-aligned sandy tyre tread marks?

Perhaps mindful that its sought-after calendar is no longer acceptable on every office wall these days, Pirelli, the Milan tyre people, thoughtfully posted the lissome ladies on the Internet as from yesterday.

The web site has, of course, a lot more than calendar pages to interest the cyber-surfer. There's all sorts of information about tyres and related services, not to mention a litany of the company's sporting successes. It is purely in pursuit of the latter information, of course, that FT readers will be logging on at http://www.pirelli.com.

Painful one

■ Who knows whether the Merrill Lynch/Smith New Court tryst is generating lots of extra business? But it is highly productive of reinvented acronyms attempting to convey the workers' state of mind. Sacked Near Christmas has recently been supplemented by Post Merrill Tension.

The Financial Times

100 years ago

Attempt to sting twice
A South African financier who has been prominent in the assistance he has given to the markets during the recent crisis was approached by a dealer, who announced with regret that he was unable to meet his obligations in full. He explained that his other creditors had agreed to accept ten shillings in the pound *[50%]* and begged the capitalist to fall in with this arrangement as regards the amount due to him. The financier, being anxious to do everything that was fair in the critical circumstances, agreed to accept the terms decided on by the general creditors, and was effusively thanked by the debtor for his generous treatment. The affair seemed then to have been duly arranged, but what was the surprise of the capitalist when he heard the defaulting dealer address him as follows: "The next thing I want to ask is this – can you lend me enough money to pay the ten shillings in the pound?" We mercifully draw a veil over the Cape rhetoric in which the reply was framed.

West Australian gold exports
The gold exported from the colony amounted during October to 27,725 ounces valued at £105,357. Of this quantity 13,813 ozs were obtained from the Coolgardie Fields.

FINANCIAL TIMES
Thursday November 16 1995

Tokyo plan gives Asian countries flexibility

Apec nears deal to end trade barriers by 2020

By William Dawkins in Tokyo and Guy de Jonquieres in Osaka

Pacific rim governments were yesterday nearing agreement on a compromise plan to eliminate all barriers to trade by 2020.

Mr Ryutaro Hashimoto, Japan's minister of international trade and industry, said he was optimistic that the 18 governments of the Asia Pacific Economic Co-operation forum, covering half the world economy, were close to a deal drafted by Tokyo, the current Apec chairman.

The draft plan will be discussed when Apec trade and foreign ministers begin a two-day meeting this morning to sketch out a plan of how to achieve the free trade goal, scheduled to be approved at the government leaders' annual summit on Sunday.

The compromise would allow flexible treatment for countries in opening markets in sensitive sectors, such as Asian farming. Japan wishes to accommodate its rice farmers, as well as farmers in China, South Korea and Taiwan, who are unwilling to submit to a guarantee to open markets by the Apec deadline.

Mr Yohei Kono, Japan's foreign minister, vowed that his country would produce a "meaningful" free trade plan, with "realistic and flexible treatment" for sensitive industries. Indonesia, Taiwan, New Zealand and Singapore supported the Japanese compromise in meetings with the Apec chairman yesterday afternoon, said a Japanese official.

Opponents of the Japanese draft have argued that enshrining special consideration for sensitive sectors would risk unravelling Apec, since all member economies have politically sensitive sectors.

Editorial Comment ....Page 17

The US, sensitive to the need not to push the pace of Apec too fast, appeared to welcome the Japanese proposal. Mr Mickey Kantor, US trade representative, said that "we believe that it is important that a realistic and flexible approach be available" for members with difficulties.

As bilateral meetings continued, South Korea, smarting from a recent row over Japan's former occupation, and China were still to be convinced that their farmers would get sufficient protection. But they were thought unlikely to block the deal.

As the agriculture problem neared a conclusion, senior officials shifted to two other crucial issues on the agenda.

Japan is proposing that Apec members should automatically extend to one another, on a most favoured nation basis, any free trade gestures they may choose to make, such as tariff reductions. It also says individual countries should liberalise at their own pace, without formally seeking comparable gains from other Apec members.

Mr Kantor reminded Mr Hashimoto, in what both sides said was a positive meeting, that the US was unable to grant MFN status in all cases because of its domestic legal requirement to review China's MFN privileges annually.

The US is also pressing for rules to ensure that Apec members offer each other roughly equivalent trade gains. This conflicts with most Asian countries' aversion to using Apec for formal trade bargaining.

Nigerian gas deal to go-ahead, says Shell

By David Lascelles in London, Paul Adams in Lagos and Caroline Southey in Strasbourg

The plan by a consortium led by Shell to build a liquefied natural gas plant in Nigeria will go ahead, the companies said after a meeting in Lagos yesterday.

However the companies have yet to finalise financing for the $3.6bn project, the source of controversy since last week's execution of Ken Saro-Wiwa and eight other minority rights activists.

The consortium said the construction contract was on course for signing before the end of the year. In London, Shell said the board had "ironed out all the major impediments" standing in the way of the project.

But there were still a number of "procedural steps" to be taken. These involved completion of the financial agreements, including the loans which the shareholders are to make to enable the project to proceed.

Mr Dick van den Broek, a director of Shell International, stressed last night that cancellation of the plant would damage the interest of the Nigerian people. "If the project is delayed, there is every possibility that the scheme would collapse," he said.

In Lagos, there was no indication whether a delay in the final investment decision was due to pressure on shareholders or lack of funds by the Nigerian National Petroleum Corporation, which has a 49 per cent stake.

A final investment decision must be made by the end of the year so that construction of the plant and facilities can be started early next year by a consortium led by Kellogg, the US construction company.

In Strasbourg, Mr Ken Wiwa, Mr Saro-Wiwa's son, and Professor Bolaji Akinyemi, a former Nigerian foreign minister and leading democracy campaigner, called for a campaign to isolate the military regime.

Prof Akinyemi pressed members of the European Parliament for an oil and arms embargo, the expulsion of Nigeria from all international political, sport and cultural bodies and a freeze on foreign bank accounts. He also called for a travel ban on members of the military regime and economic sanctions if the government failed to introduce democratic reforms in six months.

World can wait for Abacha's regime, Page 4

Sterling drops as economy puts pressure on UK Budget

By Robert Chote, Philip Gawith and Robert Peston in London

The pound fell to a record low on the foreign exchanges yesterday as figures showing a rise in UK unemployment and the biggest fall in living standards for nearly 14 years underlined the pressure on Mr Kenneth Clarke, chancellor of the exchequer, to deliver a "giveaway" Budget and a cut in interest rates.

The news on the economy came as Mr John Major, prime minister, attempted to wrest the political agenda from the opposition Labour party with a legislative programme focusing on improving the competitiveness of the economy, being tough on crime, and introducing greater choice in education.

But the programme for the current session of parliament, unveiled in the Queen's Speech yesterday, was partly overshadowed by a savage attack on the government by Sir Julian Critchley, a veteran Tory backbencher, and a paint-bomb attack on Mr Brian Mawhinney, the Conservative party chairman.

There was also feverish speculation among MPs that several disenchanted Tory backbenchers were to leave the party. Conservative party managers said they had no evidence that any MP wanted to launch such a coup, which would threaten Mr Major's ability to govern, as it has a majority of just six.

Average earnings rose by an underlying 3¼ per cent in the year to September, according to the Central Statistical Office. Over that period, the average household needed a 4.3 per cent rise in income simply to compensate for higher prices and taxes. The resulting drop in "real" average earnings was the largest since March 1982.

Expectations of a base rate cut after this month's budget were encouraged by an unexpected drop in the volume of goods sold in the shops last month and the first rise in the number of people without work and claiming benefits for 26 months.

The prospect of lower rates took its toll on the pound, which dropped to a record low of 82.5 per cent of its 1990 value against a trade-weighted basket of other currencies.

Against the D-Mark, it finished in London at DM2.1847, a loss of three pfennigs on the day, and only slightly above the all-time low of DM2.1755 reached on May 9. The Bank of England would not comment on market rumours that it had intervened to support the pound at about DM2.19.

The expectation of lower rates was also reflected in the short sterling futures market, but gains there were later unwound as sterling weakness seemed to limit the scope for a rate cut.

Growth 'hampered for 25 years', Page 12

THE LEX COLUMN

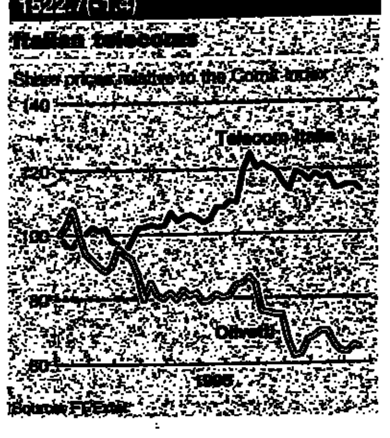
Olivetti plugs in

Olivetti has pulled a white rabbit out of its hat on the eve of its L2,257bn ($1.42bn) rescue rights issue. But if the company hoped its ambitious alliance with France Télécom would make investors less reluctant to stump up cash, it will have been disappointed. Shareholders worry that the venture will absorb increasing sums of capital. Only L200bn may be needed in the first two years; but if Olivetti is serious about taking on Telecom Italia across the whole range of fixed telecoms services once the market is liberalised in 1998, the cash drain could be substantial.

This is not to deny the venture has attractions. Most important, Telecom Italia represents a soft target. Not only does it suffer from high costs; it is vulnerable to "cherry-picking" because its international tariffs are inflated and its best customers are highly concentrated in and around Milan. Moreover, picking France Télécom as a partner plugs Olivetti into an international alliance including Deutsche Telekom. This should give the venture an edge in handling traffic to France and Germany, which together account for nearly 30 per cent of Italy's outgoing international calls.

That said, Olivetti's alliance will not have the market to itself. BT already has a link-up with Banca Nazionale del Lavoro and it can only be a matter of time before AT&T addresses the market. Success will depend on efficiency and innovation – qualities Olivetti's core computer business has not been noted for of late.

FT-SE Eurotrack 200:
1522.7(-1.4)



Euro Disney

Like the wicked queen's poisoned apple, yesterday's figures from Euro Disney looked pretty on the outside. Once investors bit into the detail, however, the shares lost 14 per cent.

Trading is undoubtedly improving. The decision in April to slash the theme park's entrance fee has paid off with a 21 per cent rise in visitors and higher hotel occupancy. But the comparison is enhanced by the poor performance last year, when attendance dropped 10 per cent. Costs remain stubbornly high and spend per head is flat at best. Revenue growth slowed from 17 per cent in the third quarter to 10 per cent in the fourth, despite a warm summer and a full three months of the new Space Mountain ride. Stripping out an exceptional gain from buying back its bonds as well as lower depreciation and lease charges, the group still lost money last year.

Euro Disney's future continues to be overshadowed by last year's financial restructuring.

Additional interest payments start this year, royalties and debt repayments after 1998. Revenues will have to grow by 5 per cent a year just to cover those extra charges. Nor can the group currently contemplate investments like another big ride or even an adjacent park, which could provide the basis for acceptable profits. At this stage a decent return on the FFr23bn ($4.7bn) original investment looks a long way away.

Euro Disney shares may provide the same thrills and spills as a ride on the group's Space Mountain rollercoaster, but they are more dangerous.

British Gas

Yesterday's £83m ($129m) provision is only the tip of the iceberg of British Gas's problems. Selling gas below cost price is already wiping more than £100m a year off profits. On top of that, the company will have to pay £520m this year for gas it cannot sell, and it will not be able to start offloading surplus for several years. Even then, BG will be lucky if it can sell at the 16 per cent discount the provision assumes. That is well below the gap between BG's average purchase price and the market price for gas contracts.

The company is praying for cold winters: higher demand would mop up some of the surplus. But this would do little to address the long-term problem. To compete in the domestic market once its monopoly is abolished – even if the weather gets worse and the surplus disappears – the company will probably still have to sell gas for substantially less than it has to pay producers. The regulator might allow BG to continue charging high prices, but the company would then quickly lose market share, causing the surplus to grow again.

BG's call for the government to bail it out by pressing producers to cut their prices looks like a dead end. Producers could hardly justify to their shareholders a voluntary act of generosity, unless the government threatened something worse. Even then, the producers would rightly squeal about being penalised for a problem they did nothing to create. The government is much more likely to avoid a row with the producers and let BG shareholders take the pain.

UK accounting

Weary finance directors who had hoped the UK Accounting Standards Board's zeal for reform was dying down will be unnerved to find it is mounting. Hidden in today's rather innocuous-sounding Statement of Principles is a radical agenda for the next few years.

The board's aim is to make accounts relevant and reliable enough for users to base economic decisions on them. It wants the profit and loss account to be a true trading statement; the present practice of allowing items such as start-up losses to be capitalised on the balance sheet would be outlawed. It favours current costs over historical costs as a way of measuring assets. The board even believes that changes in long-term liabilities, such as pension costs or derivatives, should be reflected in annual figures. The only concession is that companies will be allowed to show these in the statement of gains and losses rather than the P&L.

This "tell-it-as-it-is" approach is a direct challenge to the traditional practice of smoothing figures to avoid one-off distortions. As such, it will run into heavy opposition from companies and auditors who argue there is quite enough volatility in accounts already. Such criticism has some merit. In an ideal world, investors would analyse the additional information and use it to make better decisions. In practice, they may just ignore a complicated set of numbers and rely on guidance from management. The board must be careful that it does not sacrifice pragmatism for principles.

Additional Lex comment on Tarmac, Page 24

Hafslund investors call halt to merger with Ivax of US

Continued from Page 1

believed there was a simple majority in favour.

The companies said they would replace the full merger with a strategic alliance in which they would enter into a number of licensing and collaboration agreements, benefiting from each other's strengths in the US and Europe.

Ivax concentrates on generic drugs, while Hafslund's most profitable products are contrast agents, used in diagnostic imaging.

Both sides said there would be no penalties or fees incurred in the broken deal, based on a one-for-one stock swap.

The news of the deal's collapse sent Ivax's shares up $⅛ to $24⅞. This still represented a fall of 21 per cent since the deal was first announced. Hafslund shares were suspended at NKr176 in Oslo before the announcement, the level they were trading at just before the link-up plan emerged. Mr Phillip Frost, Ivax chief executive, said he regretted the loss of the tremendous potential offered by the merger.

Hafslund said it would go ahead with the spin-off of its energy division.

Analysts said this would leave the company looking attractive for a merger or takeover.

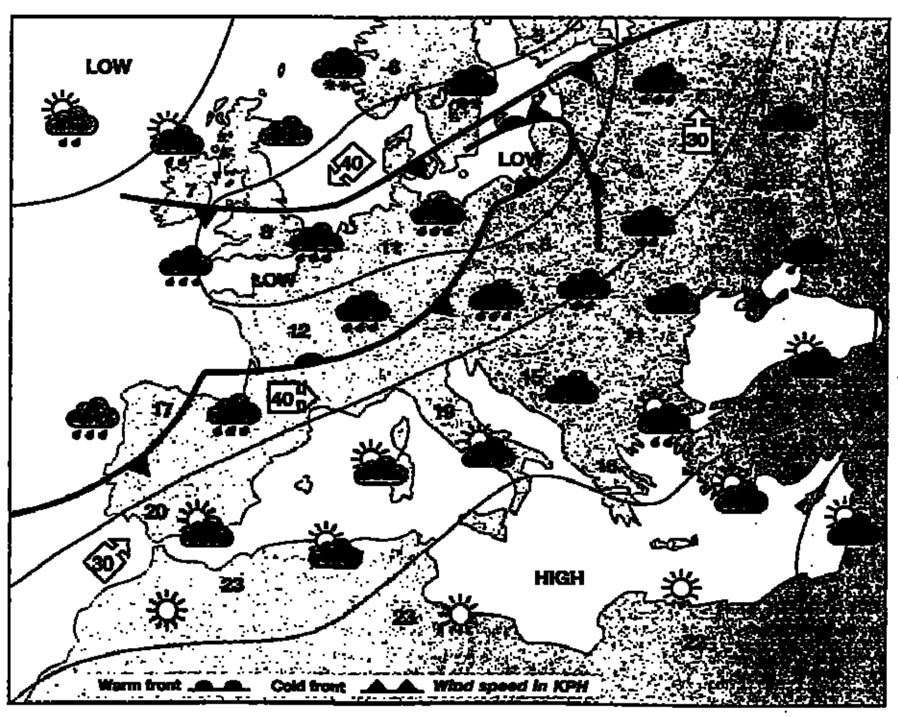
FT WEATHER GUIDE

Europe today

High pressure over Iceland and low pressure over southern Scandinavia will direct strong northerly winds with cold and unstable air into northern Europe and the British Isles. Snow and hail showers will form over the Baltic sea and move inland. There will be heavy rain over southern England, the Low Countries, Denmark and southern Sweden. An active low pressure system in the Gulf of Biscay will also bring heavy rain and windy conditions to Portugal and northern Spain. South-east Europe will be settled. Greece and the Balkan states will be sunny. The southern half of Italy will have summer-like conditions with maximum temperatures around 20C.

Five-day forecast

During the next couple of days, cold air from the north will move further into Europe. The British Isles and the Low Countries will have rain and light hail showers with temperatures mainly above freezing. Northern Europe will turn wintry. Heavy snow showers will continue over the Baltic Sea and move inland. Portugal and northern Spain will continue wet and windy.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	31
Accra	thund	30
Algiers	fair	24
Amsterdam	rain	12
Athens	sun	20
Atlanta	cloudy	13
B. Aires	cloudy	26
B.ham	rain	8
Bangkok	cloudy	33
Barcelona	fair	18
Beijing	sun	13
Belfast	shower	5
Belgrade	sun	15
Berlin	rain	11
Bermuda	shower	24
Bogota	cloudy	19
Bombay	sun	34
Brussels	rain	12
Budapest	fair	10
C.hagen	rain	7
Cairo	fair	24
Cape Town	fair	20
Caracas	cloudy	31
Cardiff	rain	11
Casablanca	sun	23
Chicago	fair	6
Cologne	rain	13
Dakar	sun	32
Dallas	fair	18
Delhi	sun	29
Dubai	sun	32
Dublin	rain	7
Dubrovnik	shower	17
Edinburgh	shower	5
Faro	rain	20
Frankfurt	rain	12
Geneva	rain	12
Gibraltar	fair	19
Glasgow	fair	5
Hamburg	rain	10
Helsinki	snow	-2
Hong Kong	cloudy	23
Honolulu	fair	29
Istanbul	fair	17
Jakarta	thund	31
Jersey	shower	13
Karachi	sun	32
Kuwait	sun	26
L. Angeles	sun	23
Las Palmas	sun	25
Lima	cloudy	22
Lisbon	rain	18
London	rain	13
Lux.bourg	rain	10
Lyon	rain	15
Madeira	cloudy	24
Madrid	shower	14
Majorca	sun	21
Malta	fair	20
Manchester	rain	8
Manila	cloudy	31
Melbourne	sun	22
Mexico City	cloudy	22
Miami	sun	23
Milan	rain	12
Montreal	snow	2
Moscow	cloudy	2
Munich	shower	13
Nairobi	shower	26
Naples	cloudy	18
Nassau	sun	28
New York	fair	7
Nice	shower	17
Nicosia	sun	24
Oslo	snow	-1
Paris	shower	13
Perth	cloudy	23
Prague	shower	11
Rangoon	cloudy	30
Reykjavik	fair	1
Rio	rain	27
Rome	drzzl	19
S. Frsco	sun	21
Seoul	fair	12
Singapore	thund	28
Stockholm	sleet	1
Strasbourg	rain	13
Sydney	cloudy	23
Tangier	fair	21
Tel Aviv	fair	26
Tokyo	fair	16
Toronto	snow	2
Vancouver	rain	13
Venice	shower	12
Vienna	cloudy	11
Warsaw	drzzl	8
Washington	cloudy	8
Wellington	cloudy	17
Winnipeg	cloudy	-1
Zurich	rain	1

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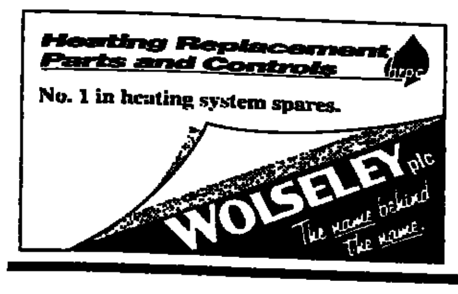


FINANCIAL TIMES
COMPANIES & MARKETS
Thursday November 16 1995

IN BRIEF

Ericsson beats nine-month target

Shares in Ericsson rose 6 per cent yesterday after the Swedish telecommunications group presented unexpectedly strong nine-month profits. The group said it was building on its leading position in the fast-growing mobile phone market.
Page 20

Sales slump at Alcatel German unit
Alcatel SEL, the troubled German subsidiary of Alcatel Alsthom, the French transport, telecoms and engineering group, has seen sales fall by almost 30 per cent in the first nine months of the year to DM2.29bn ($1.62bn). Page 20

Hypo-Bank expands asset management
Hypo-Bank is to expand its asset management business by co-operating with a big US fund manager, but has no plans to take a financial stake or seek investment banking acquisitions. Page 21

Matsushita slides into first-half deficit
Matsushita, Japan's largest consumer electronics maker, suffered a group net loss of Y132.9bn ($1.3bn) in the first half. Page 22

VW sees contribution from S America
Volkswagen, the German automotive group, expects its South American operations to contribute substantially to its return to profitability this year. The forecast comes despite difficulties in Brazil, VW's second biggest market after Germany. Page 24

Canadian rail offer to be priced today
Canada's biggest privatisation, a public share offering by Canadian National Railway, is due to be priced today. Page 24

UK insurer prospers from US upheavals
Commercial Union, the largest UK-based insurer, said upheaval among US insurers was providing expansion opportunities in the country as the group reported a 13 per cent rise in nine-month pre-tax profits to £369m ($583m) against a restated £327m. Page 25

Construction groups realign in UK
Two of the UK construction industry's largest groups, George Wimpey and Tarmac, plan to swap their housebuilding, building materials and construction divisions. It will be the biggest realignment in the UK sector. Page 25

British Gas feels the heat
British Gas warned that full-year profits were under threat from unseasonally warm weather in the UK. Page 26

BICC confirms cable slowdown
BICC, the world's second largest cables manufacturer, underlined the slowdown in the international cables industry by announcing an £80m ($126m) rationalisation programme and warning of job losses. Page 26

Pulp prices under pressure
Wood pulp prices are under pressure amid softening demand for paper and a flood of supplies from Russia and Indonesia. Page 27

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Springer Axel	[illegible]	+	7
Falls			
Aachen Mch Rg	[illegible]	-	15
Asko	[illegible]	-	10
DLW	[illegible]	-	9.5
Kab & Salz	170	-	4.3
Wella	[illegible]	-	10
NEW YORK ($)			
Falls			
Apple Compt	41	-	[illegible]
Cons Papers	[illegible]	-	[illegible]
Georgia Pcfc	[illegible]	-	[illegible]
[illegible]	[illegible]	-	[illegible]
Intl Paper	[illegible]	-	[illegible]
Stone Cont	[illegible]	-	[illegible]
LONDON (Pence)			
Rises			
BPB Inds	[illegible]	+	12
Dart Group	[illegible]	+	17
Premier Oil	[illegible]	+	20
Utd [illegible]	114	+	[illegible]
Falls			
Forward Grp	[illegible]	-	30
Greenaway	[illegible]	-	25
TORONTO (C$)			
Rises			
[illegible] Tech	[illegible]	+	[illegible]
[illegible]	[illegible]	+	[illegible]
Tre Wall Grp	5	+	1
Falls			
[illegible]	[illegible]	-	[illegible]
[illegible]	[illegible]	-	[illegible]
Mult Corp	7	-	[illegible]
PARIS (FFr)			
Rises			
AGF	[illegible]	+	8.4
Air Liquide	815	+	11
Cred Nat	348.5	+	11.7
Ecco	739	+	19
Lyon des Eaux	505	+	23.5
Falls			
SEB	600	-	19
TOKYO (Yen)			
Rises			
Asahi Optcl	393	+	32
Daishowa Ppr	772	+	42
Takaoka Elec	530	+	60
Falls			
Kokusai Elec	2110	-	120
Oki Elec	680	-	25
Tokuyama	728	-	23
HONG KONG (HK$)			
Rises			
Kai Ming Inv	5.85	+	0.75
Paliburg Hld	5.15	+	0.20
SAS Dragon	5.5	+	0.85
Falls			
CDL Hotels	3.1	-	0.20
Cna Elec Pwr	13.2	-	1.0
Top Glory Int	1.08	-	0.17
BANGKOK (Baht)			
Rises			
Far East	176.0	+	13.0
Ryl Orchid	14.75	+	1.25
Tongkah	33.75	+	2.5
Falls			
Phatra Ins	156.0	-	14.0
Prakit & FCB	78.0	-	8.0
S&J Intl Ent	46.5	-	5.0

New York and Toronto prices at 12.30pm.

Alliance forms to rival Telecom Italia

Liberalisation opens way for deal between France Télécom, Olivetti and Bell Atlantic

By John Ridding in Paris and Andrew Hill in Milan

France Télécom, Olivetti, the loss-making Italian computer group, and Bell Atlantic, the US telecommunications company, yesterday announced plans to join forces in the Italian telecoms market with the aim of becoming the main rival to state-controlled Telecom Italia.

The planned alliance is a step in the alignment of forces in Europe's liberalising telecoms market. It will provide France Télécom and its international partners, Deutsche Telekom and Sprint of the US, with improved access to the L30,000bn ($19bn) Italian market – one of the largest in Europe – through Infostrada, the telecoms company jointly owned by Olivetti and Bell Atlantic of the US.

The venture will also underpin Olivetti's attempts to transform itself into a broad-based computer, information technology and telecommunications group.

The timing of the announcement was particularly good for the Italian group, which opens its record L2,257bn rights issue today. Many analysts see the capital increase as the last chance for Mr Carlo De Benedetti, Olivetti's chairman and controlling shareholder, to relaunch the group.

France Télécom is set to take a 49 per cent stake in the venture, with Olivetti and Bell Atlantic holding the balance.

When Infostrada was formed in April, Olivetti said it would seek a strong European partner, and until early autumn, it had favoured broadening the alliance to include British Telecommunications.

The France Télécom link will give Infostrada access to the French company's Atlas joint venture with Deutsche Telekom, and the Phoenix alliance between the two state companies and Sprint of the US.

Mr Michel Hirsch, international director of the French state-owned operator, said Deutsche Telekom and Sprint were expected to participate in the new company. Mr Michel Bon, who took over as chairman of France Télécom last month, said: "It is a very important agreement. Italy is a key market where Olivetti has recognised knowledge and understanding."

Mr Hirsch said the venture would start operations in the liberalised sectors of the Italian market, such as services for business. But the goal was to be the leading alternative operator in Italy in all sectors of the market, once national monopolies over voice communications are lifted in 1998.

The joint venture could be extended to include owners of telecoms infrastructure, if Italy decides to accelerate the liberalisation of alternative telecoms networks. "It's clear that in parallel with the liberalisation process, we will consider the possibility of buying or using someone else's existing infrastructure," said Mr Marco De Benedetti, Carlo's son and head of Olivetti Telemedia, the telecoms and multimedia subsidiary.

Lex, Page 18; Strength in unity, Page 33

Unilever picks new UK arm chairman

By Roderick Oram, Consumer Industries Editor

Unilever, the Anglo-Dutch consumer products group, said yesterday it had chosen Mr Niall FitzGerald, head of its detergents business during last year's controversial and costly failure of Persil and Omo Power, as the next chairman of its UK arm.

Long seen as the likely heir apparent to Sir Michael Perry, chairman of Unilever plc, Mr FitzGerald weathered last year's debacle with his reputation as a strong leader and manager intact.

Unilever is run by the "special committee" consisting of the chairman of the UK and Dutch arms plus, usually, one heir apparent. Mr FitzGerald will join the committee in January and succeed Sir Michael in August. Mr Morris Tabaksblat is the Dutch chairman.

Unilever is still spending heavily on marketing to claw back market share lost by Persil and Omo. A catalyst in them reacted badly with a few dyes, causing some dark colours to fade and textiles to weaken.

Known within the company as a risk taker impatient with its complex management structures, Mr FitzGerald is expected to instigate sweeping changes. Before becoming chairman in August, he will lead a review of the group's senior management organisation.

"This very urgent review is clearly designed to address Unilever's problem of underperformance," said Mr David Lang, an analyst with UK stockbroker Henderson Crosthwaite. "They will be lucky to achieve 5 per cent profit growth this year compared with their target of 8 or 9 per cent in real terms."

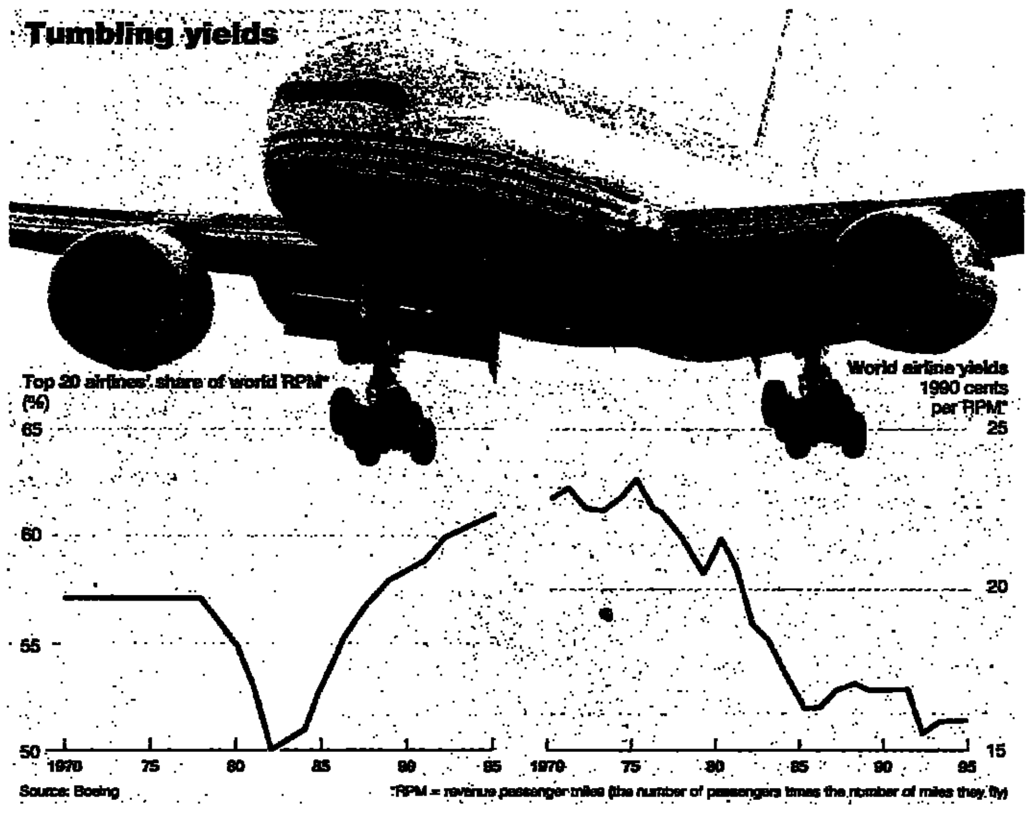
Unilever is run by a complex series of committees because of its dual nationality and twin headquarters, in London and Rotterdam. Many managers throughout the organisation express frustration with the structure. Poor co-ordination between countries contributed to Unilever's problems with the Power detergents last year and caused friction between the London-based detergents directorate headed by Mr FitzGerald and some senior executives in the Dutch arm of the group.

Changes to the legal structure and dual nationality, created in the merger of Lever Brothers of the UK with Margarine Unie of the Netherlands in 1929, is thought unlikely.

Mr FitzGerald, 50, joined Unilever in 1967 and is appreciated in the City of London for his grasp of the company and his presentation skills.

Michael Skapinker and Maggie Urry report on industry consolidation

Airlines rush to adapt to big changes in the skies



United Airlines and American Airlines both announced this week that they did not see USAir as a suitable marriage partner. Northwest Airlines of the US and its part-owner, KLM of the Netherlands, are embroiled in a public quarrel which looks like the prelude to divorce.

The Northwest board will today discuss limiting the voting rights of individual shareholders to between 15 and 20 per cent. Northwest has accused KLM, which owns 21.5 per cent of the US carrier's voting shares, of being "hell-bent on seizing control of the company". KLM denies this but is taking legal action to preserve what it sees as its rights.

These developments might appear to undermine the contention that the airline business will soon find itself in the throes of consolidation, with long-established carriers disappearing and a handful of global airline alliances achieving dominance.

This view was repeated last week by Sir Colin Marshall, chairman of British Airways, which owns 24.6 per cent of USAir, who said each region of the world would have no more than three global carriers.

With the collapse of the USAir talks and the KLM-Northwest spat, doubts about this view have grown. One US analyst says: "I do not buy the idea of a massive consolidation in the industry. There was a lot of smoke and very little flame in the United-USAir talks." But the long-term pressures pushing airlines towards mergers and partnership will not diminish.

Boeing of the US, the world's largest aircraft manufacturer, says that yields – the revenues received for each mile a passenger is carried – are in long-term decline. Some airlines, such as United, report that yields are now rising, but the history of air travel suggests this is short-term.

'I do not buy the idea of a massive consolidation. There was a lot of smoke and little flame in the United-USAir talks.'

Boeing says yields have been falling by about 2 per cent a year in real terms since 1960. It expects yields to continue to decline at a rate of 1.1 per cent a year between 1995 and 2014. In the 1960s, fares fell as airlines replaced propeller-driven aircraft with jets, enabling them to transport larger numbers of passengers more quickly. In the 1970s, larger aircraft enabled even more people to fly more cheaply.

Since the 1980s, fares have been kept down by competition. The US industry has been deregulated since 1978. The European Union internal air market will be completely liberalised by 1997. Lower fares will lead to even more people flying. The US Federal Aviation Administration says the number flying annually will double from 1bn to 2bn worldwide by 2015.

The increase in passengers is good news for airlines, but falling yields are not. The pressure on airlines to cut costs will continue. Mr Chris Avery, an analyst at Paribas Capital Markets in London, believes the purchase of aircraft is the main area in which larger airlines can lower costs: the more aircraft purchased, the bigger the discount.

Airline partnerships can enable carriers to eliminate the number of aircraft flying on a route. BA's 25 per cent stake in Qantas of Australia has enabled the two companies to eliminate one Boeing 747 and one 767 from the UK-Australia route without any reduction in flight frequency.

Some analysts believe these advantages will push airlines to continue taking equity stakes in one another. There has been speculation that United will now turn its attention to Continental Airlines of the US.

Others say, however, that the failed USAir discussions and the Northwest-KLM difficulties will result in the industry consolidating through alliances without exchanges of equity. This will take the form of code-sharing agreements, which enable airlines to place their two-letter codes on flights operated by their partner. This means that airlines can fly passengers to one city and then offer them onward flights to destinations they do not serve but which their partners do. These agreements give carriers access to a bigger pool of customers.

Mr Robert Crandall, chairman of American, has condemned code-sharing as misleading to consumers, but has accepted that he must look for a large code-sharing partner himself. He has decided not to bid for USAir, but analysts believe American – or United – might strike a code-sharing deal with USAir, and BA, instead.

Oil groups sign $480m fund plan for Czechs

By Vincent Boland in Prague

Three western oil companies signed a binding agreement yesterday on a $480m investment in the Czech Republic's oil refining industry. This paves the way for a substantial restructuring of the sector after nearly two years of often difficult negotiations.

The agreement allows Agip of Italy, Conoco of the US and Royal Dutch/Shell to proceed with the purchase of a 49 per cent stake in Czech Refineries, which owns the country's two main oil refineries.

In July the three companies agreed in principle with the Czech industry ministry to pay $173m for the stake. The final price will be set next spring. The binding agreement sets out how key issues related to the investment, including environmental liabilities and future control of the refineries, will be treated.

The signing clears the way for Czech Refineries to begin a five-year modernisation programme at its two units that is expected to cost at least $480m, which will be partly financed by the proceeds of the acquisition.

The modernisation programme is part of a wider restructuring of the Czech refining and petrochemical sectors that hinged on the signing of the agreement. The introduction of western capital faced stiff opposition from domestic oil interests.

The restructuring involves the creation of Unipetrol, a state-controlled holding company for the two sectors. Unipetrol will own the remaining 51 per cent of Czech Refineries, which itself is to take over ownership of refineries from Chemopetrol and Kaucuk, two large petrochemical groups.

Unipetrol will retain its stake until the modernisation programme has been implemented. It will also acquire the state's shareholdings in Chemopetrol and Kaucuk, which have been partly privatised, and is expected also to begin an overhaul of the petrochemical industry.

Since July negotiations have centred on how environmental liabilities at the refineries will be dealt with under new ownership. One of the main aims of the modernisation programme is to cut pollution. Yesterday's signing was delayed by nearly two hours as both sides haggled over the small print of the document.

Total, the French oil group, was a fourth member of the western consortium. It withdrew suddenly at the end of June.

Fraud turns sugar market sour

By Deborah Hargreaves in London

A rise in international sugar fraud could be costing companies in developing and eastern European countries up to $400m a year, according to the commercial crime bureau which monitors fraudulent trading for the International Chamber of Commerce.

"It is something we're dealing with on a daily basis: it is a worldwide problem and very complicated," said Ms Lin Kuo, assistant director of the ICC bureau.

Commodity fraudsters are taking advantage of tightness in the world sugar market as a result of delays in this year's crop coming to market. Buyers acting for countries desperate to get their hands on supplies are tempted by offers of cut-price cargoes.

Trading companies or banks issue letters of credit or even advance fees on the basis of bogus documentation provided by fraudulent sellers. There is little legal redress if the cargo fails to arrive as the money is hard to trace.

Mr Alan Bray, head of the fraud investigation services at accountants Touche Ross, said: "Some of these companies are very naive. They do not investigate their counterparty in the trade and they do not spot the forged documentation."

Mr Bray cites an example of a Bulgarian trading company paying out $3.8m under a letter of credit to buy 12,500 tonnes of Brazilian refined sugar from a Brazilian trader. But the boat on which the sugar was said to be loaded never arrived and the money was disbursed into five accounts in Switzerland.

The commercial crime bureau says that companies in China, India and eastern European countries are most often affected by commodity fraud. Touche Ross points to examples where a company in Kazakhstan lost $4m on a single sugar transaction and Chinese purchasers lost $40m.

Mr Tony Hannah, economist at the International Sugar Council said fraudulent traders are playing on shortages in the market. "Sugar is a very volatile commodity and quite high value. Also it is sold from 60 to 70 different origins, which makes it harder to check if it is a *bona fide* offer," he said.

Mr Hannah said inexperienced traders were fooled by the fact that sugar is often offered from Brazil where production has increased rapidly. In addition, port congestion in Santos has delayed some shipments.

INTERNATIONAL COMPANIES AND FINANCE

EUROPEAN NEWS DIGEST

SNI recovers to DM62m for year

Siemens Nixdorf Informationssysteme (SNI), the computer division of Siemens, yesterday pledged to continue restructuring with further job cuts and productivity measures. The company announced its first pre-tax profits in four years, of DM62m ($43.6m) for the year to end-September. Mr Gerhard Schulmeyer, chairman, said the continuing fall in computer. prices would mean profits would "melt down quickly" unless the company achieved above average growth, particularly outside Europe.

In the long run, the company planned to rebalance its business so that Germany, the rest of Europe, and the rest of the world each account for one third of turnover. SNI is Europe's second-largest computer maker, after IBM, and occupies 11th place worldwide. Mr Schulmeyer said four of SNI's 10 divisions continued to make losses, although he expected all to operate profitably by 1996-97.

Sales rose 10 per cent to DM12.8bn, with new orders up 11 per cent at DM13bn. Investments rose 66 per cent at DM838m, stemming mostly from the acquisitions of Pyramid, a US manufacturer of high-end Unix computers, and of a 10 per cent stake in Escom, the German computer retailer.

Commerzbank's share issue is expected to be oversubscribed with a full 3.2m shares sold at near the current market price. The company had originally set a range of shares to be sold of between 2.76m and 3.2m at a prospective maximum price of 5 per cent below market price. The final issue price is expected to be announced either later tonight or tomorrow morning. Commerzbank expects to raise about DM1bn.

Wolfgang Münchau, Frankfurt

Swedbank surges to SKr2.98bn

Swedbank, the Nordic region's biggest bank by assets, said yesterday that operating profits nearly tripled in the first nine months to SKr2.98bn ($447m), against SKr1.04bn a year ago, excluding capital gains. The improvement was driven by a SKr1.55bn drop in loan losses to SKr1.8bn, but cost control and a 10 per cent rise in net interest income helped. The bank, which was listed on the Swedish stock exchange during the summer after a SKr3.5bn international share issue, has adjusted its forecast for full-year loan losses downwards from SKr2.7bn to SKr2.4bn. It intends to pay a SKr3.5 per share dividend for 1995. *Christopher Brown-Humes, Stockholm*

Kirch secures film deal

Mr Leo Kirch, the Munich-based media mogul has secured the German distribution rights for a package of films including *Schindler's List* and *Jurassic Park* for $30m, one of the highest prices ever paid in Germany for such a package. Mr Kirch bought the rights from MCA, the US film company, to retain his dominance in the film distribution sector. He clinched the deal following stiff competition from RTL, Germany's commercial independent television channel partly owned by Bertelsmann, the German publishing and entertainments group. *Judy Dempsey, Berlin*

Renault sales reach FFr137bn

Renault, the French motors group due to be privatised, said sales rose to FFr137bn ($28bn) in the first nine months of the year, from FFr131bn a year earlier. Sales in the third quarter alone declined from FFr41.25bn to FFr40.8bn. The company said that during the fourth quarter the first effects of new French government measures to subsidise new car buyers should be felt, but the western European car market was unlikely to show any increase in 1995 over last year.

AFX News, Paris

Ericsson profits jump as mobile phone sales surge

By Christopher Brown-Humes in Stockholm

Shares in Ericsson rose 6 per cent yesterday after the Swedish telecommunications group presented unexpectedly strong nine-month profits and said it was building on its leading position in the fast-growing mobile phone market.

Pre-tax profits of SKr4.81bn ($720m) were up 38 per cent from SKr3.49bn a year ago on the back of a 23 per cent surge in sales to SKr66.9bn.

The figures provided clear evidence of Ericsson's continued success in mobile telephony, where it has increased its share of the handset market to about 11 per cent while consolidating its 40 per cent share of the cellular infrastructure market. Its mobile telephony sales rose 50 per cent and orders were 75 per cent higher.

Mr Lars Ramqvist, chief executive, said: "Demand for digital phones for GSM continues at a very high level, with no change in price levels in sight. Volumes increased as planned, and a significant increase in Ericsson's share of the global market for digital pocket phones is now expected." He added that nearly half of the world's 11.6m GSM subscribers were connected to Ericsson systems.

The group said the number of mobile phone subscribers in the Asia Pacific region was rising by 100 per cent a year and west European subscribers were climbing by 60 per cent. Even in the US – where there have been fears of slower growth – subscriber numbers were growing 46 per cent.

The group's optimism soothed investors made nervous about the state of demand since Motorola of the US and Finland's Nokia reported slower growth and pricing pressures in the US cellular market.

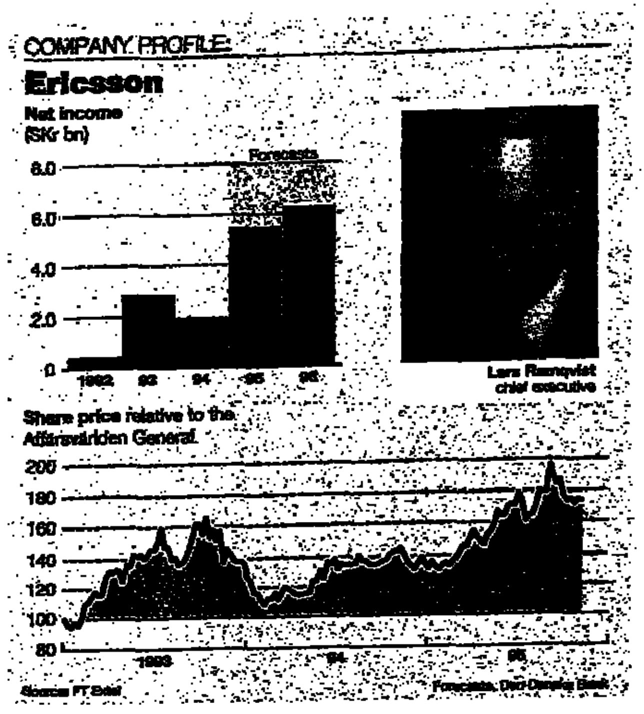
Ericsson's shares rose SKr8.5 to SKr148.5 while shares in Nokia, which have fallen sharply in recent weeks, rose FM5 to FM238 in Helsinki. Ericsson has only a small position in the US analogue market where pricing pressures have been greatest.

Nine-month sales in the group's radio communications division were 42 per cent higher at SKr37.3bn, after a 50 per cent increase in mobile telephony business. The fastest growing markets are China, the UK, Sweden, Australia and Spain. But some of the biggest order successes have been in the US, Japan and Germany. Mobile business accounted for 60 per cent of the total group orders of SKr78.5bn, up 31 per cent from last year.

There was a more sluggish performance from public telecommunications, where sales rose 11 per cent to SKr18.9bn and profit development was weak. The unit has been hit by price pressures and the market for broadband – multimedia – operations has taken off more slowly than expected. Substantial resources and staff are being shifted from the public side to the radio division.

The third-quarter performance continued the strong trends seen in the first half. Sales, profits and orders were all up by about 30 per cent.

The company, which has just raised SKr7.8bn in Sweden's largest ever rights issue, maintained its optimism about full-year prospects but did not present a forecast. Analysts expect profits of around SKr8bn.



Euro Disney makes communication its theme

The group is setting store by cost cuts and better-informed visitors, says Andrew Jack

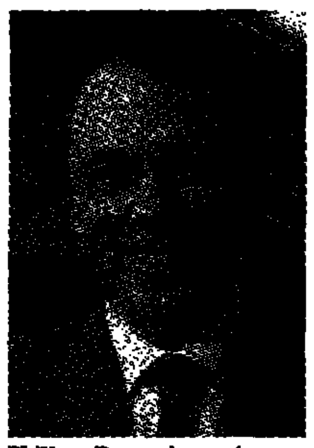
Mr Philippe Bourguignon, chairman of Euro Disney, has a self-criticism to make. He believes his company is a victim of misunderstanding, and that he needs to do more to communicate what it really is.

He has previously said he is tired of apologising for the mistakes of the past, when Euro Disney was widely – if simplistically – criticised for being too arrogantly American in its management style.

Now, he sees a new challenge. "Analysts, journalists, customers, everyone needs a frame of reference," he says. "Everyone grabs what they know.

"But the European public did not know what a theme park was. We are not an attraction park, a chain of hotels, a group of restaurants, or a merchandising company."

His message when unveiling the group's first annual profits yesterday was that the sum is worth more than the parts.



Philippe Bourguignon: 'we can make one plus one equal 2½'

"We need to show people that we can make one plus one equal two and a half," he says.

When Euro Disney opened, the idea of theme parks did not exist in Europe. Now, Mr Bourguignon argues that his group's marketing efforts – combined with those of rival parks that have opened since – have raised public awareness and hence boosted the size of the market for everyone.

He derives great hope from the fact that attendance has risen 21 per cent during the current year – from 8.8m to 10.7m – and that a growing proportion of visitors in the past 12 months – 26 per cent at the moment – have been to Euro Disney at least once before. This suggests that a strong repeat market is developing.

Yet if external ignorance of the theme park idea was a problem until recently, so too has been management's ability inside the group to capitalise on the Euro Disney mix of businesses.

Mr Bourguignon says that "the future depends on our being better able to optimise those businesses and to increase the leverage between them". For example, he is trying to get travel agents to provide useful hints to customers before they arrive at the park.

Once they arrive it is too late to influence them, he says. But if they are told in advance that queues are worst at lunchtime and they would do better to go back to their hotel during this period, the results can be highly profitable.

Customers are less frustrated by waiting around with their children, they spend more because they are more relaxed, and they use their hotel restaurants, which are often almost empty in the middle of the day while the fast-food sites in the park are packed.

He says that Euro Disney's gate prices will remain fixed, at least during the coming year.

But other prices are being tweaked ever more subtly to raise revenues.

So rates in middle-ranking hotels have been cut, but maintained in the more luxurious rooms for which demand is less elastic. Appetisers will be discounted slightly in restaurants but the main dish prices maintained – encouraging people to buy both rather than simply skipping the first course.

On the cost side, Mr Bourguignon is concluding negotiations with the staff unions to make working arrangements more flexible and to bring fluctuations in wage bills more in line with changing weekly and annual attendance patterns. This will mean that staff will work longer hours at weekends and during the summer, and peak demand will be met through contracts with external suppliers.

His real challenge will be to ensure that such efforts on revenues and costs can generate adequate additional income to pay off the growing interest and royalty charges that Euro Disney will begin to face from next year.

Alcatel SEL sales decline 30% at nine months

By John Ridding in Paris

Alcatel SEL, the troubled German subsidiary of Alcatel Alsthom, the French transport, telecoms and engineering group, yesterday announced that sales had fallen by almost 30 per cent in the first nine months of the year to DM2.29bn ($1.62bn).

The decline, which reflects the downturn in the German telecoms equipment market, was worse than expected. A statement from the company said that full-year sales of a forecast DM4.5bn would be below the target set at the beginning of 1995.

"We have not achieved the goal that we set of achieving half of our recovery efforts this year," the company said. However, it cited several positive factors such as a stronger order book and good prospects for products such as SDH transmission systems and broadband communication devices.

Part of the fall in nine-month sales reflected the completion of turnkey projects in eastern Germany, which were previously sub-contracted to other suppliers.

The problems at Alcatel SEL have been one of the most serious setbacks at Alcatel Alsthom, contributing to a fall into loss this year for the first time in the group's history.

Mr Serge Tchuruk, who took over as chairman this summer, has announced a radical restructuring at the group which involves asset write-downs and exceptional charges totalling about FFr20bn.

To strengthen recovery efforts in Germany, Alcatel SEL said it was seeking a control agreement with the parent company. This change would make the subsidiary a division of the group, rather than an independent company, and is in line with the group's plans to tighten management controls at Alcatel SEL.

Industry observers believe that the weakness of controls was an important factor behind the deterioration of results at the German operation and the failure of the group to respond quickly.

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INTERNATIONAL COMPANIES AND FINANCE

Hypo-Bank plans alliance with US fund manager

By Andrew Fisher in Munich

Bayerische Hypotheken-und Wechsel-Bank plans to expand its asset management business by co-operating with a big US fund manager, but has no plans to take a financial stake or seek investment banking acquisitions, Mr Josef Wertschulte, a director of the German bank, said.

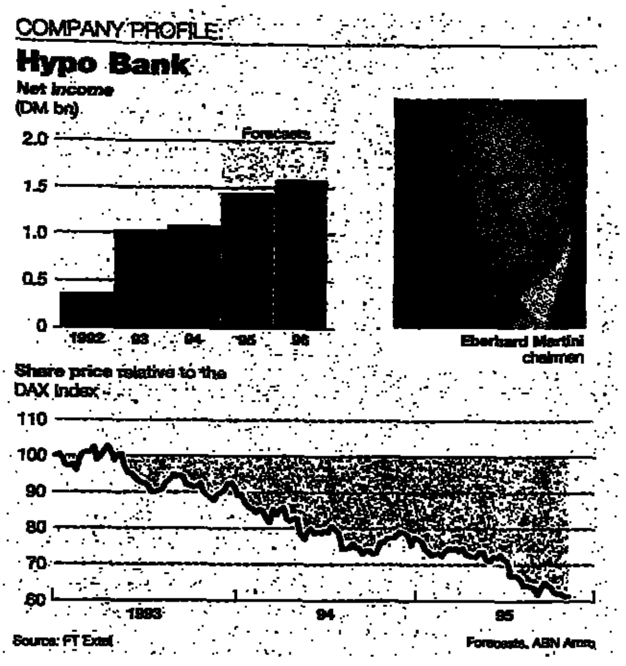
Negotiations on marketing and product co-operation in North America and Europe should be concluded early next year, he added. "We're not looking for an acquisition in this sector as prices are totally exaggerated," he said.

Rival Bayerische Vereinsbank is talking with Oppenheimer & Co, a US securities broker, fund management and investment banking concern, about a possible takeover which could cost about $500m.

Mr Wertschulte declined to name the US company with which Hypo-Bank was talking but said its assets under management were a "high double-digit billion dollar" figure, mostly on the retail side, and more than the $40bn Oppenheimer manages.

Co-operation with a new US partner would be carried out jointly by Hypo-Bank and Foreign & Colonial Management, the UK fund manager in which it owns 50 per cent.

Although he saw no sense in Hypo-Bank taking a small stake in its proposed US partner, he said the two sides could later make joint acquisitions to develop business.



News of the talks came as Hypo-Bank announced almost flat results for the first nine months, with profits from its various activities showing a mixed picture. Group operating profits were 1.5 per cent higher at DM735m ($519m), a slower rate of growth than at other big German banks.

The bank had not achieved its targets for net interest income – up 1.8 per cent to DM3.1bn – or commission income – 7.6 per cent lower at DM615bn – reflecting customers' reluctance to buy shares and fund units at a time of stock market weakness, said Mr Eberhard Martini, the chairman.

However, costs had been cut so that basic operating business, excluding financial trading and before risk provisions, compared well with that of rival banks, although it was down 10 per cent.

Nine-month trading profits of DM122m, against a DM83m loss last time, bolstered profits. However, the bank kept risk provisions high, with a 2.2 per cent rise to DM801m.

Berlin bank upbeat despite slowdown in term

By Judy Dempsey in Berlin

Bankgesellschaft Berlin expects a 50 per cent increase in operating results this year, despite a slowdown in profit growth for the third quarter, Mr Wolfgang Steinriede, joint chairman of the board, said yesterday. The dividend will also be raised.

He added that a reduction in risk provisions and an expected surge of business in the last quarter of this year would compensate for the sluggish results for the third quarter.

Risk provisions for the first nine months of this year fell DM201m, from DM726m to DM525m ($371m) Bankgesellschaft has already accounted for its share of the debts incurred last year following the collapse of Mr Jürgen Schneider's building empire and Balsam, the sports facilities company. These amounted to DM180m. It has also written off DM300m on its securities portfolio.

The group's operating results, less risk provisions, rose 59.4 per cent from DM419m to DM668m and interest income rose 30.9 per cent from DM9.97bn to DM13bn.

Net interest income rose 6 per cent from DM2.3bn to DM2.5bn and net commission rose 1.8 per cent from DM453m to DM461m. The bank's balance sheet increased 9.5 per cent from DM246bn for the whole of 1994 to DM269bn until September 30 of this year.

Net results from proprietary trading fell 14 per cent, from DM58m to DM39m, confirming the bank's continuing weakness in this market despite heavy investments. Its main strengths remain high street banking and mortgage lending.

"Given these disappointing results, it will be hard for the bank to post a 50 per cent rise in operating results for the entire year," said Mr Olaf Conrad, analyst at Morgan Stanley. "Its costs remain too high and there has been a general slowdown for the third quarter."

Administrative expenses rose 7.2 per cent from DM1.8bn to DM1.9bn because of the costs of integrating the different divisions of the bank and unifying its computer system with Norddeutsche Landesbank, which holds a 15 per cent stake in Bankgesellschaft.

Bankgesellschaft was founded in January 1994 after it merged Berliner Bank, Landesbank Berlin and Berliner Hypothekenbank, becoming the first German bank in which the private and public sector joined forces.

Shake-up at Paribas retail banking subsidiary

By Andrew Jack in Paris

Paribas, the French financial services group, yesterday announced a management restructuring and replacement of the chairman at its Crédit du Nord retail banking subsidiary.

Mr François Henrot, former head of Compagnie Bancaire, another Paribas subsidiary, becomes chairman of a newly-created supervisory board for the bank, while Mr Philippe Toussaint, managing director of Crédit du Nord, becomes chairman of its management board.

Mr Bernard Auberger, the current chairman who was installed at the start of last year with a mandate to return the bank to profitability and improve its marketing, rejoins Compagnie Bancaire as a member of the management board.

Under his leadership, the bank reported a FFr19m ($3.89m) profit for the first half of this year, against a FFr196m loss for the full 1994 year.

Paribas said Mr Auberger had performed a good job, but it had decided it now wanted as a group to be a more active shareholder in Crédit du Nord.

The new supervisory board will have powers including decisions on investment, risk management and important nominations.

Mr Henrot left Compagnie Bancaire earlier this year to become head of France Télécom, but resigned almost immediately to rejoin Paribas when he found he did not have the support of the government to bring about the reforms he believed were necessary to move the group towards privatisation.

Bank Austria set to raise Sch800m through issue in US

By Ian Rodger in Zurich

Bank Austria, Austria's largest bank, is arranging a secondary issue in the US of 1.7m of its preferred shares, 23 per cent of those outstanding, on behalf of a domestic institutional vendor.

The issue, which would be worth about Sch800m ($80.4m) at current market prices, would be made only to US investing institutions under the Securities and Exchange Commission's rule 144a.

It would also test international interest in a much larger offering next year. The Austrian government has said it wants to sell its 20.4 per cent holding of the bank's ordinary shares.

Mr Gerhard Randa, Bank Austria chief executive, said at a press conference in Bratislava to mark the opening of a Slovak subsidiary that the issue would be priced on December 6.

Mr Randa forecast that full-year 1995 parent company pre-tax profits would reach "at least Sch5bn", up from Sch4.8bn in 1994 under former accounting rules. He gave no forecast under new accounting rules which would have reduced last year's profit to Sch4.2bn.

He said the parent bank's pre-tax profits in the first nine months rose 13.4 per cent to Sch3.3bn and net assets were up 5.4 per cent to Sch671bn.

Mr Randa attributed the improvement, which was in sharp contrast to a 9 per cent decline reported by rival Creditanstalt-Bankverein last week, to a 4.1 per cent rise in credit volume to Sch375bn.

Bank Austria is generally stronger in retail credit business, while Creditanstalt has suffered from weak commercial demand for loans.

Next month's issue would also help improve the liquidity of Bank Austria's equity. At the moment, only 10 per cent of the 24.2m ordinary shares trade freely, with a City of Vienna foundation holding just under 50 per cent. And only about half of the preferred shares are available to public investors.

Seeking strength in unity

France Télécom and Olivetti extend their horizons

Yesterday's deal between France Télécom and Olivetti of Italy, which should see the emergence of an aggressive new international competitor for Telecom Italia, illustrates a number of key trends in the European telecoms market.

The move is part of a general rush by telecoms operators to find appropriate local partners, on the right terms, in preparation for January 1 1998, when competition will be joined in basic EU telecoms services.

British Telecommunications, for example, the most aggressive of Europe's telecoms operators, has already formed a joint venture in Italy with the Banca Nazionale del Lavoro, called Albacom. A significant advantage for the UK operator is that BNL already operates a private network in Italy over which services can be offered.

Infostrada, the joint venture between Olivetti and Bell Atlantic, which will be France Télécom's partner in yesterday's deal, has no such network. However, there are a number of possible options. These include Omnitel, the mobile phone company in which Olivetti is the largest shareholder. It could also lease infrastructure from other network owners.

This latest deal is also of importance for Olivetti's ambitions in fixed-wire and mobile services. Eventually operators will want to offer customers a package of fixed and mobile services as the market opens.

According to Mr Marco de Benedetti, chief executive of Olivetti Telemedia, the joint venture's aim is to take 50 per cent of the growth in those parts of the market which are opening to competition. These include, for example, desk-top videoconferencing and Internet access. The aim is to take up to 20 per cent of the corporate market in the next three to five years.

Yesterday's move also demonstrates the importance of local companies allying with partners having global reach. On its own, Infostrada is simply a new domestic telecoms operator struggling to establish itself in the Italian market. In partnership with France Télécom, however, it has access to a much wider market through Atlas, the joint venture between the French operator and Deutsche Telekom.

It can also benefit from its association with Phoenix, the global partnership involving the French and German operators and Sprint, the third-largest US long-haul carrier.

The deal will also provide a bridgehead in Italy for the Atlas and Phoenix alliances. Both are designed to offer advanced telecoms services to large international companies. They will be in direct competition with Concert, a joint venture of BT and MCI, the second-largest US operator, and WorldPartners, an alliance of smaller operators under the leadership of AT&T of the US.

Mr Laurence Heyworth of Flemings Research in London, said the deal made powerful sense for the companies in terms of both geography and alliances: "France Télécom is as good a partner as Olivetti could hope for" he said.

The Italian market is worth about L30,000bn ($19bn) today, of which L6,000bn – chiefly data services and private corporate voice – is open to competition; this should grow by some 10 per cent to 15 per cent a year over the next few years, giving Infostrada a turnover of between L2,000bn and L3,000bn by the turn of the century.

The partners say the investment for the new company over the next two years will be about L200bn, or roughly the amount already planned for investment in Infostrada by Olivetti and Bell Atlantic. Infostrada has already spent about L60bn to L70bn.

Alan Cane, John Ridding and Andrew Hill

MCA sale sends Matsushita to first-half loss

By Michiyo Nakamoto in Tokyo

Matsushita, Japan's largest consumer electronics maker, suffered a group net loss of Y132.9bn ($1.31bn) in the first half because of foreign currency translation losses relating to its sale of MCA, the Hollywood entertainment group. Net income in the previous first half was Y23.8bn.

But the company is now forecasting that stronger sales of non-consumer products, from cellular phones and batteries to semiconductors, will support a better-than-expected result for the full year.

The company sold an 80 per cent controlling stake in MCA to Seagram, the Canadian drinks group, in April after major differences over strategy for the entertainment business arose between the Japanese management and MCA executives.

The sale of the bulk of its MCA shares led to a foreign currency translation adjustment of Y164.2bn, Matsushita said.

The net loss from the MCA sale contrasts sharply with the parent company's 16 per cent rise in net profits to Y25.5bn which was helped by strong demand for non-consumer electronics products.

Group sales in the first half were also down – by 4 per cent to Y3,221.8bn – mainly because of the loss of MCA sales. Without the MCA contribution to last year's sales, group sales this year would have been 2 per cent higher, Matsushita said.

The loss on the sale of MCA also led to a pre-tax loss of Y81bn, compared with profits of Y84.6bn previously.

Sales for the year are expected to be down 4 per cent, rather than 6 per cent as previously forecast, to Y6,660bn while pre-tax profits are expected down 68 per cent to Y75bn instead of the Y72bn previously forecast. Matsushita expects a full-year group net loss of Y64bn, in line with the previous estimate.

● NEC, the Japanese semiconductor maker, Packard Bell Electronics of the US and Taiwan's GVC Corporation are forming a Chinese joint venture to produce monitors for personal computers, AFX reports from Tokyo.

Investment in the new company, NPG Display, will be Y4bn. NEC said it and Packard Bell would each hold 35 per cent of the venture – which would have capital of $7.4m – with GVC taking the balance.

The venture would have headquarters in Hong Kong, with its plant in Guangdong province, NEC said. Initial monthly production is expected to be 120,000 units from May 1996, rising to 240,000.

Japanese city bank plans big shake-up

By Gerard Baker in Tokyo

Hokkaido Takushoku Bank, one of Japan's 11 leading city – or commercial – banks, is planning a comprehensive restructuring to hasten the disposal of its heavy burden of non-performing loans.

The bank, one of the country's most troubled lenders, said yesterday it planned to curb wage costs and to sell some of its fixed assets and securities to alleviate the asset quality problem. The plan could even involve the sale of the company's headquarters in Sapporo in northern Japan, a near-revolutionary move for a Japanese bank.

It could also include the closure of some branches in Tokyo and a reduction in the bank's overseas operations.

As of March 31 1995, HTB had disclosed problem loans of Y479bn ($4.72bn), 6.6 per cent of total loans, although independent estimates of its undisclosed loans suggest the real figure is probably much higher.

Its efforts to write off bad debts were reflected in its results to the year ending in March, when it reported a pretax loss of Y8.7bn, a figure that was also affected by declines in the value of its securities holdings.

The bank had total deposits of Y8,382bn at the end of March.

Sahaviriya Steel hit by low prices and exchange losses

By Ted Bardacke in Bangkok

Sahaviriya Steel Industry, one of Thailand's largest companies and its only producer of hot-rolled steel products, suffered a third-quarter loss of Bt183m ($7.3m).

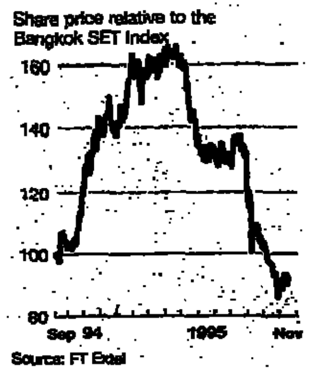
The company blamed foreign exchange volatility and poor world steel prices. It suffered a Bt103m foreign exchange loss in the third quarter because of the appreciation of the US dollar against the baht.

The loss compares with net profits of Bt303m in the first six months of the year.

Mr Adisak Lawjun, company president, said that profit margins in the third quarter were squeezed because of the high cost of raw materials in the second quarter. "But we had to cut our selling price to be in line with the falling world steel prices," he added.

Sahaviriya Steel

Share price relative to the Bangkok SET Index



Source: FT Extel

The average profit margin in the third quarter was about $126 per tonne, compared with $178 in the second quarter.

Sales revenue also fell 14 per cent compared with the previous quarter after an 8 per cent drop in sales volume from 220,000 tonnes to 203,000 tonnes and a 7 per cent fall in hot rolled coil prices from $449 a tonne to $416 a tonne.

Analysts said excess global inventory of hot-rolled steel products was the main factor hurting Sahaviriya. But they added that the fourth quarter should show some improvement because of lower interest expenses after a refinancing of the company's euro-convertible bond. Domestic demand should pick up as Thailand rebuilds from its worst flooding in a decade. Meanwhile the company said exports had increased to about one-third of output from about 15 per cent at the beginning of the year.

Thai banks held back by credit limit

By William Barnes in Bangkok

Bangkok Bank, Thailand's biggest, disappointed the market after reporting a 6.4 per cent year-on-year rise in third-quarter consolidated profits. The bank's shares fell Bt3 to Bt196 yesterday.

Consolidated net profits advanced from Bt4.38bn to Bt4.66bn ($185m) while earnings per share rose from Bt4.38 to Bt4.65 in the third quarter.

But analysts said the bank's overall funding costs had been pushed up after deposits had risen an annualised 20 per cent, against a 15 per cent rise in lending business.

Bangkok Bank – like many of its rivals – has been constrained by the central bank's insistence that credit growth be limited to 24.5 per cent this year because of concern that the economy might overheat.

Siam Commercial Bank was an exception to the banks' weak results, with net profits of Bt1.994bn in the third quarter. Earnings per share rose 28 per cent to Bt5.2 despite a squeeze on interest margins.

An analyst said Siam Commercial might struggle to maintain its profits record; earnings per share grew by 25 per cent and 27 per cent in the first and second quarters. A further fall in interest margins was likely in the last quarter, and also a slowdown in property loans because the bank had reached the central bank lending limit in this sector.

Thai Farmers Bank's net profits were 8.1 per cent higher at Bt2.966 with loan growth at nine months at 14 per cent and deposit growth at 11.4 per cent.

ASIA-PACIFIC NEWS DIGEST

Revamp at Yamaha behind 74% growth

Restructuring at Yamaha, the world's largest maker of musical instruments, helped to boost recurring profit – before tax and extraordinary items – by 74 per cent in the first half to September 30. The Japanese company's sales rose nearly 8 per cent. Pre-tax profits jumped from Y6.15bn last time to Y10.67bn ($105.1m) on sales which advanced to Y190.93bn, against Y176.95bn a year ago.

Yamaha's results exceeded its forecasts for parent sales of Y188bn and pre-tax profit of Y10.50bn. It said domestic sales rose 6.2 per cent, to Y127.97bn, as a result of strong demand for its magnetic heads, sound-generator LSIs and on-line karaoke system, although sales of musical instruments and sports equipment were stagnant.

Yamaha said the positive impact of the restructuring helped boost operating profit 107 per cent, from Y6.38bn in the corresponding period last year to Y13.21bn. Sales of pianos dropped 8.6 per cent to Y22.92bn and sales of electronic musical instruments fell 4.2 per cent from Y40.31bn to Y38.6bn last year. But sales of audio equipment jumped 39 per cent to Y28.4bn while sales of electronic metals and equipment climbed nearly 37 per cent to Y54.4bn.

● Yamaha Motor, the motorcycle maker affiliated with Yamaha, was hit by the yen's appreciation in the first half. The company saw pre-tax profits drop 59 per cent from a year earlier to Y1.23bn. Sales edged ahead to Y227.29bn, up 1.9 per cent. The company said the decline was caused almost solely by the yen's appreciation, which slashed the profitability of exports. The company lost Y10.3bn because of the strong yen on a pre-tax basis, part of which it recovered by raising prices. Yamaha also reduced production and administrative costs to make up for part of the damage from the yen's rise.

AP-DJ, Tokyo

Minolta Camera ahead sharply

Minolta Camera, a leading maker of cameras and office automation equipment, recorded a sharp increase in recurring profit – before tax and extraordinary items – in the first half year to September 30. The Japanese group's earnings rose from Y542m last time to Y1.04bn ($10.2m) on sales up from Y92.69bn to Y98.47bn. Profits were boosted mainly by higher overseas sales of copiers, compact cameras and single-lens reflective cameras, the company said.

Pre-tax profit was also boosted by lower production costs at the company's overseas plants in places such as Malaysia and China. Sales of information-related equipment rose to Y62.23bn, up 4 per cent from the same period a year ago, while exports rose 3.4 per cent, to Y50.94bn. Domestic sales were Y11.36bn, up 6.4 per cent.

AP-DJ, Tokyo

Gas attack and quake hit JR East

East Japan Railway, a spin-off of the former national railway system, was hit by the effects of the Kobe earthquake, Tokyo subway poison gas incident and the economic slowdown. Recurring profit – before tax and extraordinary items – in the fiscal first half declined 5.6 per cent to Y68.16bn ($671m) while revenue slipped to Y975.46bn from Y988.69bn.

JR East said the slack economy hit passenger traffic which was further affected by the uneasiness created by the poison gas deaths in the Tokyo subway. The railway said the earthquake in the Kobe area of western Japan cut passenger traffic because Tokyo station was the starting point for trips to the west. The quake also cut the commissions JR East earned from other JR operators.

AP-DJ, Tokyo

Samsung sees $3.24bn earnings

Samsung Electronics has increased its earnings forecast for 1995 from Won1,700bn to more than Won2,500bn ($3.24bn). The South Korean group reported 1994 earnings of Won945bn. The surge in expected earnings is the result of an export boom for semiconductor chips. Samsung is the world's largest producer of memory chips that store computer data and has benefited from a global supply shortage.

Sales in 1995 are expected to increase by almost 50 per cent to Won16,200bn. Samsung recorded net profits of Won1,131bn on sales of Won7,062bn for the first half of 1995. Company officials have recently told investors that earnings could reach nearly Won3,000bn.

John Burton, Seoul

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Nucor seeks to recapture its heady past

Group must overcome several obstacles if it is to repeat its earlier success, writes **Richard Waters**

Nucor, the company which in the early 1990s single-handedly proved there was life left in the US steel industry, has come down to earth.

Shares in the minimill company have tumbled more than a third over the past year, even as US stock market averages have climbed 30 per cent. After doubling sales and quadrupling earnings since the start of the decade, the group's stellar stock market rating has reverted to the merely ordinary.

Mr Ken Iverson, who has headed the company for the past 30 years, bristles when questioned whether Nucor is *running out of growth*. "So what's new? Of course it's not sustainable," he says of the steelmaker's performance since the late 1980s. However, he adds: "I expect we can have growth of 15-20 per cent [a year] in the next five years."

If Mr Iverson is right, Nucor will remain the star of the US steel industry for the rest of *the decade. But it will have to* overcome a number of obstacles, including a rash of imitators out to copy the company's success.

The immediate outlook in the US steel market looks stable, if unspectacular. After seeing prices climb steadily as the country's steelmakers reached full capacity, Nucor led a series of price cuts earlier this year, prompted by falling orders from big users of flat-rolled steel such as the car and appliance industries.

That, and the effect of higher prices for scrap steel – the basic raw material for minimill companies – has brought an end to the rapid margin expansion of 1994, when Nucor's net profit margin jumped two percentage points to 7.6 per cent.

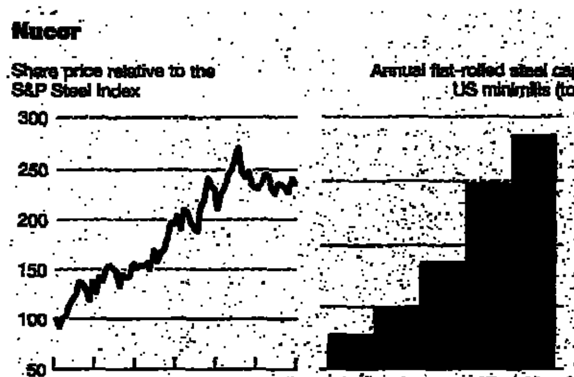
The price cutting looks to be over, at least for now. Two weeks ago, Nucor nudged up the price of cold-rolled steel, the highest-quality grade of *sheet steel, by $10 a ton to* $490. The more important hot-rolled steel price has not budged, but looks unlikely to fall further.

This summer's squeeze was enough to dent Nucor's latest quarterly earnings, leading to a fall in net income despite a 9 per cent increase in sales.

With the US economy seemingly *poised for continued slow* growth, there seems no prospect that profit margins will start climbing again, particularly given the batch of new minimills planning to start production soon.

Until earlier this year, Nucor was the only US minimill producing flat-rolled steel, a process it pioneered at the start of *the decade. By using scrap and* electric furnaces, rather than traditional blast furnaces, the company proved it was possible to produce the higher grades of steel at a lower cost than the big integrated steelmakers.

The first imitator, Gallatin Steel, began production this spring. At least five others will start up in the next three years, including Steel Dynamics, a company created by former Nucor managers, and Trico, a joint venture between LTV of the US, Sumitomo of Japan and British Steel. Nucor is building a third mill of its own, in South Carolina, a move that will add 1.8m tons to its *steel-making capacity in 1997.*



Although it will be some years before all this extra capacity comes on line, the new competition has already been felt. Aggressive pricing by Gallatin, intent on securing a market for its products, helped force Nucor to reduce prices earlier this year, says Mr Iverson.

Nucor now finds itself in the unaccustomed position of having to catch up with other mills technologically. Gallatin, for instance, is using a new type of electric furnace which Nucor plans to install in its new plant.

Meanwhile, Nucor's latest technological leap has run into problems. To cut its reliance on scrap, the company is pioneering the large-scale production of iron carbide, a substitute material, at a plant in Trinidad. The plant, at a cost of $90m and rising, has been delayed by what Mr Iverson calls a "design mistake". But if the plant's redesigned heat transfer units, due to be *installed by January, work as* planned, the facility could soon give Nucor a new cost advantage over competitors.

Of such technological advances, the Nucor chairman says ruefully: "I'd always rather be second. The person who does it first takes a bigger risk and has higher costs."

Against this background, it *is perhaps no wonder that* Nucor's stock market rating has lost some of its shine.

However, it would be wrong to overdo the pessimism: at about 15 times expected 1995 earnings, its shares still sell at *a premium to the rest of the* steel sector. And at $4bn, its stock market value remains almost twice that of US Steel, the country's biggest producer.

According to Mr Iverson, the growth may be slowing, but it is far from over. In future, he says, it will come from the new mill in South Carolina, from a broader range of products, and from exports.

For now, Nucor exports only about 10 per cent of the 7m tons or so of steel it produces. It has been too busy feeding domestic demand to concentrate on developing export markets, says Mr Iverson – although he says this will be a priority in future.

Also, he says, the company will attack new markets at home for products such as galvanised steel and fasteners. Nucor has just entered the stainless steel market, producing catalytic converters. It is also considering producing steel for car bodies, a higher quality material than it has so far had to produce. With ambitions like these, Nucor is bet*ting that it can repeat its suc*cesses of the early 1990s.

Iron carbide produced in Trinidad will provide the raw material for a new technology that could eventually give Nucor an edge over other producers. The company plans to test a revolutionary process in which steel is pro*duced in a sealed unit, without* the need for any heat.

It is, stresses Iverson, only a feasibility study – and one which has been stalled by the delay in iron carbide production.

For now, Nucor is counting on other factors to retain its cost advantage. These include a unionised workforce whose compensation is based heavily on profit-related incentive payments, and a heavily decentralised culture. Nucor's greater experience could also give it an advantage as new competitors wrestle with an unfamiliar technology.

Canadian railway sell-off receives warm reception

By Bernard Simon in Toronto

EQUITY OFFERING

Canada's biggest privatisation, a public share offering by Canadian National Railway, is due to be priced later today amid signs of an enthusiastic reception among domestic and international investors.

The issue is expected to raise more than C$2bn (US$1.5bn), with 40 per cent of the shares sold outside Canada.

One underwriter said the *international portion* of the offering had been 10 times oversubscribed, with most of the demand coming from US institutional investors with a sizeable exposure to railway stocks. CN earlier this week increased the price range for the shares from C$22.50-C$25.50 to C$25.50-C$27.50, reflecting strong demand and a recent *rally in US rail shares.*

CN is one of Canada's two national rail operators, with 1994 revenues of C$4.3bn and 18,000 miles of track. The other operator, Canadian Pacific, has for many years been a widely-*owned public company.*

Although CN remains subject to numerous regulatory constraints, it has undergone an extensive shake-up in the past three years in preparation for privatisation. The workforce has been cut by almost a third, seven out of eight top managers have been replaced, and debt has been restructured.

The success of the issue has caused some friction in the underwriting group, which is led by *Nesbitt Burns* and ScotiaMcLeod of Toronto, and Goldman Sachs, the US investment bank.

CN is the first Canadian privatisation without a ceiling on foreign ownership. The foreign underwriting group *had initially* hoped for a larger allocation of shares.

However, Canadian securities dealers have succeeded in generating strong demand among their clients.

One underwriter *predicted* that many Canadian investors would take advantage of a small premium in early trading to lighten their holdings, but that these shares would be snapped up by longer-term US investors.

VW forecasts profits boost from S America operations

By Haig Simonian in São Paolo

Volkswagen, the German automotive group, expects its South American operations to contribute substantially to its return to profitability this year.

The forecast comes despite difficulties in Brazil, VW's second biggest market after Germany, where swingeing import tariffs and a credit squeeze have shifted demand towards smaller, cheaper vehicles in the second half of this year.

Mr José Ignacio Lopez, VW board member for South America, said VW could retain its 40 per cent share of Brazilian car sales, which amounted to almost 1.6m units last year, despite more difficult trading conditions, recent investments announced by Fiat and other local competitors, and the arrival of newcomers such as *Renault and Hyundai.*

"It is not easy, but it is possible and we will fight for this," he said.

VW will be helped by its decision to build 100,000 units a year of the Polo Classic notchback model at a restructured plant in Argentina. The new car, which is a rebadged Cordoba from VW's Spanish Seat *subsidiary*, has just gone on sale in Europe and should begin production in Argentina next May.

Most parts for the new model, which will replace the

> VW will be helped by its decision to build 100,000 units a year of the Polo Classic notchback model at a restructured plant in Argentina

ageing Voyage sold in South America, will come from Spain. However, VW expects to increase local content gradually.

Mr Lopez said VW did not plan to reimport the new car, to be sold throughout the Mercosur free trade area, to Europe, as adequate capacity existed at its Wolfsburg and Pamplona plants which currently produce 1,000 Polos a day. The new model should reinforce VW's South American earnings in 1996.

Despite the Brazilian downturn, the group's Brazilian and Argentine subsidiaries expect to *make pre-tax profits of* between DM610m and DM620m ($431m-$438m) this year, making it one of the group's most profitable operations.

Turnover in cars should reach DM8bn, with trucks and *buses contributing a further* DM1bn each.

High profits in Brazil have lifted earnings at a number of European car manufacturers operating locally, notably Fiat. Demand for cars is expected to *rise to between 1.9m and 2.4m* units by 2000.

However, VW has the widest range of cars in the region, while its bus and truck operations have gained substantial market share.

Mr Lopez said the company might broaden its truck range, which extends to a 35-tonne vehicle, to 60 tonnes in future, bringing it into direct competition with established marques such as Mercedes Benz and Scania.

Sprint to take $705m charge

Sprint, the US long-distance carrier, will take one-time charges of up to $705m in the fourth quarter to eliminate 1,600 jobs over two years and to adopt new accounting methods for its local telecommunications *division*, Reuter reports from Kansas City.

The after-tax charges will result in a net loss for the period, but will not have an adverse impact on Sprint's operations or dividend policies, the company said.

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COMPANY NEWS: UK

Wimpey concentrates on housebuilding as Tarmac takes contracting and quarrying

Assets swap reshapes building sector

By Andrew Taylor, Construction Correspondent

The biggest ever realignment of the UK construction industry was announced yesterday when two of the sector's largest companies, George Wimpey and Tarmac, revealed plans to swap their housebuilding, building materials and construction divisions.

Wimpey, already the country's biggest housebuilder, is to absorb Tarmac's housing division, almost doubling its size in the private homes market.

Tarmac in return will get Wimpey's contracting and quarrying businesses, reinforcing its position as the UK's biggest supplier of aggregate and coated stone.

With turnover of about £1.75bn ($2.76bn) the combined Tarmac-Wimpey construction division will be the UK's second largest building and civil engineering contractor, behind Amec. But it will still be smaller than the largest French and German construction groups.

Shares of both groups jumped on news of the deal, which Wimpey and Tarmac heralded as the start of a much needed rationalisation in the construction sector. Tarmac shares rose 9p to 92¼p while Wimpey closed up 15p at 127p.

Mr Joe Dwyer, Wimpey's chief executive said: "Both groups had come to the conclusion that they could not provide all of the investment required by a multi-faceted construction group. Instead we are concentrating on the businesses we think will earn the best returns for each group."

Other contractors which have sold or recently announced plans to sell housebuilding divisions include the BICC subsidiary Balfour Beatty, Costain, Mowlem, Birse Group and Lovell. Ideal Homes, part of the struggling Trafalgar House group, also is thought to be available for sale if the right price was to be offered.

The asset swap proposed by Tarmac and Wimpey returns both companies to their roots. Wimpey, an ailing west London stonemason bought by Sir Godfrey Mitchell in 1919, has been involved in housebuilding since 1928. Its previous peak production was in the 1970s when it was building about 12,000 houses a year in the UK.

Tarmac, which will build about 6,500 homes this year, overtook Wimpey as the country's biggest housebuilder in the 1980s but it has struggled more recently. The company only started housebuilding in 1974 and has its roots in quarrying and the production of road surfacing material. It started its civil engineering business in 1929.

Wimpey would appear to have got the better deal. Housebuilding margins, although depressed, are nowhere near as awful as in contracting. And the housing market is expected to recover next year. Tarmac's housing division is forecast to make £40m operating profit in 1996.

Wimpey's construction and minerals division, by comparison, is expected to make no more than £25m next year. Tarmac, however, insists the swap will not dilute earnings as it expects to make substantial savings by rationalising the two construction businesses and by reducing the higher costs at Wimpey minerals.

Neither company could say how many jobs were likely to be lost, but cuts seem more likely at Tarmac. Wimpey said up to 4,000 employees would be transferred to Tarmac while it would get about half that number of Tarmac housing staff.

The deal is expected to have limited impact on each group's balance sheet. Wimpey's aggregate business and Tarmac's housing division are each expected to be valued at about £320m.

Wimpey's contracting business would be transferred at a zero asset value, implying an injection of cash of about £40m-£50m by Wimpey, increasing the company's gearing from about 35 per cent to about 45 per cent.

Trevor Humphries

Same problem, different solutions: Neville Simms (left), chief executive of Tarmac, with Joe Dwyer, chief executive of Wimpey

Strong CU eyes US opportunities

By Ralph Atkins, Insurance Correspondent

Commercial Union, the largest UK-based insurer, said yesterday upheaval among US insurers was providing expansion opportunities in the country as the group reported a 13 per cent rise in pre-tax profits at the nine months' stage to £369m ($583m) against a restated £327m.

News of the US push comes as CU relies increasingly on overseas operations to compensate for toughening conditions in the UK – a trend not helped by a £16m rise in subsidence claims in the third quarter. CU said that new operations in Asia would be unveiled early next year.

Separately, the group pre-empted new US rules requiring disclosure from next year of reserves for asbestos and environmental claims, saying it expected year-end provisions of $130m and $300m respectively.

Overall profits were lifted by contributions from Groupe Victoire, the French insurer acquired last year, and substantial improvements in the Netherlands and the London insurance market.

The latest figures were after a £12m provision for costs associated with transferring CU's self-employed life direct sales force to Abbey Life. Some 56 per cent of CU's trading profits were generated overseas.

CU was not affected by recent Caribbean hurricanes although it was hit by severe weather in North America.

Analysts said the results were in line with expectations, confirming the slowdown in profits' growth caused largely by UK price competition. This was expected to result in 1996 pre-tax profits about £20m below this year's full-year figure, which is forecast at £490m with earnings per share of 50p.

North American operations reported improved results at the nine-month stage, although the US profits growth was due to higher investment income rather than improved underwriting figures.

Mr Bob Gowdy, responsible for US operations, acknowledged price competition was fierce but "the market is so huge...there is plenty of opportunity for niche and specialist operations. We have been moving a lot of our business into those operations."

City to take on US rivals

London's financial institutions are finally going on the offensive to try to win back lucrative international privatisation business from their American rivals, writes Antonia Sharpe.

At a seminar in Jakarta next week, they will use the privatisation flop of PT Telkom, Indonesia's telecom company, to expose the weaknesses of their competitors, a marketing tactic which US banks widely use when they pitch for privatisation mandates.

"It is time to take the gloves off", said Mr Robin Fox, the vice chairman of Kleinwort Benson, who is leading a delegation of representatives from the London Stock Exchange, Coopers & Lybrand, Schroders, ING Barings, Flemings, BZW and SBC Warburg.

Although SBC Warburg was one of four banks arranging the international offering of Telkom shares, it was lack of orders from US institutions, not UK, which forced the Indonesian government into the embarrassing position of having to halve the deal to $540m and price the shares below the original range.

The flop has fanned criticism that the American banks – Goldman Sachs, Lehman Brothers and Merrill Lynch – gave the government an over-optimistic view of likely US demand for the Telkom shares.

Hambros loss after provisions

By John Gapper in London and Andrew Hill in Milan

Hambros, the UK merchant banking group, yesterday announced a senior management shake-up, and the restructuring of banking activities, after recording an interim pre-tax loss of £7.7m ($12m) in the six months to September 30, against profits of £21.5m.

Hambros said it was ending some activities including equity broking in Australia, and would cut corporate lending. But it wanted to expand equity fund management arm, either by acquisition or going into partnership.

Its largest shareholder, the Italian bank Gruppo Bancario San Paulo, intends to increase its 14 per cent stake to 19 per cent. However, it said that it supported Hambros independence, and had no plans to raise its stake further.

Hambros Bank made a £23.5m provision for bad and doubtful debts to reflect risks on old loans not fully provided for until now. Directors said the move reflected a decision to adopt a more conservative provisioning policy. There was an exceptional £14.5m charge to cover the costs of pulling out of equity broking in Australia and some clearing activities, offset by a £5.7m gain on the sale of a £100m residential mortgage book.

Dawson declines and warns on second half

Dawson International, the Edinburgh-based textiles group, where a new management team took over in March, yesterday reported half-year profits down 43 per cent because of what Mr Derek Finlay, the new chairman, called "terribly adverse trading conditions", writes James Buxton.

Mr Finlay blamed poor sales on the warmest year since 1659 and consumer confidence still below pre-recession levels. He warned that after a very warm October profits in the second half were unlikely to match those of the first.

Profitability was affected by higher raw material prices, especially for cashmere from China and Mongolia. Cashmere sales volume and margins were particularly depressed because of high prices and weak demand.

In the US its remaining subsidiaries J.E.Morgan and Duofold both saw a slight fall in operating profits with margins reduced by higher raw material prices. Production levels there are being scaled back to improve inventory turnover and reduce working capital.

Job losses and shake-up underline international industry slowdown

BICC takes £80m charge

By Tim Burt

BICC, the world's second largest cables manufacturer, yesterday underlined the slowdown in the international cables industry by announcing an £80m rationalisation programme and warning of job losses.

The company, which owns Balfour Beatty – the UK civil engineering and construction group, said increased raw material prices and sluggish demand for low-voltage cables would dent profits this year and force it to sell or close plants, particularly overseas.

Its warning follows gloomy forecasts from other cable manufacturers, such as Alcatel Alsthom, the French telecoms, transport and engineering group.

Shares in BICC meanwhile, fell 9p to 253p after it said that its housing and construction-related cable businesses had been hit by a downturn in Australia, North America and some European countries, mainly Germany.

The company, which employs 45,000 people around the world, said it planned to close its Schönow cables factory in Germany, but refused to name the other plants likely to be affected or quantify the possible job losses.

"We're going to have a major drive on productivity and that means taking people out," said Mr Alan Jones, chief executive.

Mr Jones, who was appointed in April after being recruited from GKN, the engineering group, warned that Britain's dormant construction market had also put margin pressure on Balfour Beatty.

Profits this year will be hit not only by the £80m rationalisation charge, but could be further undermined by a £44m goodwill write-off on the sale of BICC's housebuilding business. BICC announced plans to divest the housebuilding business in August, when it reported a 5 per cent fall in first-half pre-tax profits to £60m.

Analysts yesterday downgraded profits forecasts for this year from £185m to £110m before exceptional items.

After goodwill write-offs and rationalisation costs, they warned that BICC could report a pre-tax loss of up to £15m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alphameric	6 mths to Sept 30	6.3	(6.3)	0.965L♠	(0.323)	2.3L	(0.8)	nil	-	nil	-	nil
Bradford Property	6 mths to Oct 5	21.5	(19.1)	11.7	(12.3)	5.4†	(5.76)	3.5	Jan 5	3.2	-	7.15
British Gas	9 mths to Sept 30	5,919	(6,378)	0.422	(0.578)	3.5	(6.2)	-	-	-	-	14.5
Carnell §	6 mths to Sept 30	1.04	(1.23)	0.048L	(0.13)	0.18L	(0.56)	nil	-	0.25	-	0.576
Commercial Union	9 mths to Sept 30 ★	6,356	(4,503)	369	(327)	38.9	(43.2)	-	-	-	-	26.54
Dawson Intl	6 mths to Sept 30 ★	168.6	(224.6)	9♥	(15.8♥)	3.8	(6.1)	1.5	Jan 10	1.5	-	3
DCC ♣	6 mths to Sept 30	235.7	(170)	10.23♥	(8.82)	9.15	(7.9)	2.71	Dec 8	2.4	-	6.16
Essex and Suffolk	6 mths to Sept 30	50.4	(48.4)	15.9	(15.3)	122	(119)	43.4	Dec 19	40.8	-	82.68
Fogas ♣	6 mths to Sept 30	21.4	(21.5)	2.07♥	(1.06)	7.35	(3.41)	3.93	Dec 8	3.57	-	9.62
Forward	6 mths to July 31	20.5	(10.9)	2.01	(0.94)	14.2†	(7.5)	3.2†	Jan 12	2.5	-	6
Greenway	6 mths to Sept 30	5.56	(5.17)	0.584	(0.915)	1.96	(3.32)	0.5	Jan 15	1	-	2.5
Hambros	6 mths to Sept 30	245	(210.3)	7.7L	(21.5)	10.9L	(4.8)	2.5	Dec 21	4.5	-	7.5
Land Securities	6 mths to Sept 30	425.9□	(426.9□)	118.1	(118.9)	16.49	(16.81)	7.1	Jan 4	6.85	-	25
Millwall	Yr to May 31	4.37	(5.69)	0.584L	(0.12L♥)	0.18L†	(0.04L)	-	-	-	-	-
Oxford Instruments	6 mths to Oct 1	65.5	(55.1)	9.03	(7.81)	11.9	(10.4)	1.9	Mar 26	1.7	-	5.7
Property Partners	6 mths to Sept 30	3.76※	(3.5)	1.34	(1.14)	8.66	(7.44)	2.8	Jan 10	2.7	-	7.875
Unigate	6 mths to Sept 30	1,043	(892)	60.4	(53.7♠)	18.8	(16.4)	6.65	Jan 5	6.3	-	18.2
Volex	6 mths to Sept 30	89.5	(78.1)	5.16♠	(5.85♥)	12.4	(14.1)	7	Feb 6	6.7	-	19
VTR	Yr to Aug 31	12.2	(11.3)	1.5	(1.34)	10.45	(10.52)	2.8†	Dec 29	2.55	4.4	4
Young & Co's	6 mths to Sept 30	37.5	(36.4)	2.57	(2.24)	13.11	(11.34)	7.35	Dec 15	7.25	-	15

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. †On increased capital. §USM stock. ♥After exceptional credit. ♠After exceptional charge. ♣Irish currency. □Total income. ★Comparatives restated. ※Includes gross rental income.

Warm weather threat to British Gas's full year

By Peggy Hollinger

British Gas yesterday warned that full-year profits were under threat from unseasonally warm weather in the UK.

Announcing the traditional third-quarter loss, when demand for natural gas is at its lowest, Mr Roy Gardner, finance director, said warm weather last year cost British Gas some £250m ($395m) in operating profits. This year, he said, "looks potentially worse than that".

While he reiterated the group's commitment to maintain this year's dividend at 14.5p, Mr Gardner said the group would have to examine its policy next year if the situation worsened.

The warning shaved 4p off the company's shares which closed at 241½p and highlighted the pressures that British Gas faces as the UK market is opened to competition. Earnings are suffering as its market share declines and the company faces a potentially severe price review in its pipeline division, TransCo, which accounts for most of its earnings.

It is also locked into long-term "take or pay" contracts to buy certain amounts of gas each year at levels believed to be more than twice the market price.

These issues cast a cloud over better-than-expected third-quarter results. Although net losses for the three months to September 30 deepened from £149m to £181m on an historic cost basis, the increase was fuelled by an expected £83m writedown on the £520m value of gas purchased through the take or pay contracts but not used. Turnover fell from £1.3bn to £1.1bn. The loss per share rose from 3.4p to 4.1p.

Stripping out the exceptional charge, net losses improved after cost-cutting in the gas supply business.

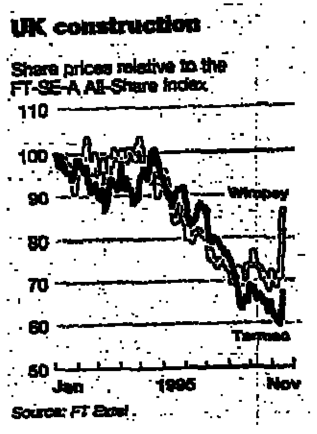
Profits for the nine months fell from £515m to £454m, on turnover down from £7.05bn to £5.92bn.

Mr Gardner expected no quick solutions to the take or pay contract problems. However, if the contracts could not be renegotiated, British Gas would have to consider further writedowns.

Mr Gardner said the company's restructuring was ahead of schedule. Lex, Page 18

LEX COMMENT

Wimpey/Tarmac



The instinctive reaction to George Wimpey's agreement to swap its contracting and quarries businesses for Tarmac's house building division is that both companies cannot have got it right. In fact, they are playing to their traditional strengths – Wimpey in housing and Tarmac in contracting and aggregates. Furthermore, the deal gets them both out of an impasse, since they were unable to generate enough cash to finance all their businesses adequately. Still, the balance is tipped in Wimpey's favour. It gains around £20m more in earnings than Tarmac, which will have to cut costs to enhance its earnings. This should not be difficult: indeed there is more scope for rationalisation of contracting than of housebuilding. But immediate and certain benefits are preferable.

Furthermore, the prospects for the UK housing market, as disposable income rises, are rather better than for the construction industry. Facing cuts in the UK road-building programme, Tarmac is placing its faith in the government's private finance initiative. PFI may yet turn out to be the salvation of the industry, but submitting bids is proving expensive and it is still unclear how profitable such projects will be.

Claims that the Wimpey/Tarmac asset swap heralds the long overdue rationalisation of the construction industry are probably exaggerated. The deal may reduce the number of bidders for projects, but it will not dent over-capacity. There is little sign that the industry's negligible margins are set to improve.

DIGEST

NationsBank plans bid for Gartmore

NationsBank, the US's fourth largest bank, is seeking a partner to make a joint bid for UK fund manager Gartmore, NationsBank's joint venture partner.

Gartmore's shares closed unchanged at 284p, valuing the ordinary equity at £572.4m. The historic p/e is about 25 and the dividend yield 2.4 per cent.

In September Banque Indosuez said it would seek a buyer for its 75 per cent stake in Gartmore. The remaining 25 per cent is publicly held. It is understood there are four other serious bidders for the stake.

Norma Cohen and Alison Smith

Unigate to sell Nutricia stake

Unigate, the UK foods and distribution group, yesterday put up for sale its 29 per cent stake in Nutricia, the Netherlands baby-food group. It is hoping to get more than £300m ($474m) for the stake, which will be sold via a global book-building exercise through SBC Warburg and ABN Amro Hoare Govett. At present share prices, the holding is worth about £329m. At March 31 the investment was carried in the balance sheet at £79.1m.

Unigate announced its intention to sell the stake as it unveiled a 12.5 per cent rise in interim pre-tax profits to £60.4m and an increase in the interim dividend to 6.65p.

David Blackwell and Antonia Sharpe

Eurotunnel revenues

Eurotunnel, the Anglo-French operator of the Channel tunnel, increased revenues to £81.3m ($128m) from ticket and duty free sales in the third quarter of 1995 from £61.5m in the second quarter. The figure took revenues in the first nine months of the year to £185.8m. There was a further £24.7m from the British, French and Belgian railways under the minimum usage contract, which guarantees a certain level of payment.

Charles Batchelor

Century Inns renews float plan

Century Inns yesterday revealed that the cost of dropping its flotation in February had knocked £1m off last year's profits.

The north-east of England pub operator is making a second, slightly less ambitious attempt to join the full list. It is aiming for a valuation of about £55m ($87m), £5m less than at the postponement. New money will also be slightly less, at £30m.

The money will be raised through a placing coupled with a clawback to meet demand from retail investors. Broker to the issue is UBS, and N.M. Rothschild is sponsor; Wise Speke is the sponsored intermediary.

The pathfinder prospectus shows that pre-tax profits for the year to the end of September were £4.9m, including the failed flotation costs and £2.86m of interest payable.

David Blackwell

Tom Cobleigh priced at 150p

Tom Cobleigh, the independent pub group, yesterday finalised its flotation, pricing the shares at 150p. At this price the chain, which makes 90 per cent of sales through its 46 managed houses, would have a market value of £59.8m ($95m). About 15.4m shares from a total of 39.8m are being placed by Hoare Govett, broker to the issue, mainly with UK institutions. The placing, sponsored by Samuel Montagu, will raise £23.1m of new money, ahead of original expectations.

The prospectus shows that in the six months to September 30 pre-tax profits were £1.04m on sales of £9.5m.

David Blackwell

COMMODITIES AND AGRICULTURE

Health-conscious Americans take bite out of gold market

By Kenneth Gooding, Mining Correspondent

US investors might be bored by gold but a growing band of health freaks in America are using the metal to have their teeth filled.

Some people are even claiming that their sexual potency and memory have improved after amalgam fillings have been replaced with gold, said Ms Helen Junz, director of gold economics service at the World Gold Council, yesterday.

She stressed the council was not making these claims but added: "You can understand that some people would be worried about what they are carrying around in their mouths and prefer to have 'pure' gold in their teeth".

The council, a promotional organisation financed by some big gold mining groups, reported yesterday that the use of dental gold in the US jumped by 18 per cent in the first nine months of this year compared with 1994 to 9.2 tonnes (295,817 troy ounces).

The American Dental Association, after completing several research projects, insisted that amalgam fillings were not a health hazard and said only 2 per cent of US dentists did not use the material. Ms Teri Reis-Schmidt, editor of the US Dental Products Report, acknowledged there was increased interest in gold fillings but insisted it was very unusual for anyone to have amalgam removed and replaced. Those wanting another material usually opted for a tooth-coloured resin, more expensive than amalgam but much less costly than gold.

Gold had its adherents because "it is tried and true and wears like natural teeth," she said.

According to the Gold Fields Mineral Services consultancy organisation, gold use in dentistry world-wide last year increased only marginally, from 63.4 to 64 tonnes.

Nevertheless, in some countries there had been a big shift to dental alloys with a high gold content. For example, "in Germany an increasing number of patients are opting for gold, despite its higher price, because they rightly or wrongly perceive it to be far more bio-compatible than any of the alternatives".

Meanwhile, in its Gold Demand Trends quarterly publication yesterday, the Gold Council reported that the amount of gold consumed in the markets it monitors – representing 75 per cent of total global demand – increased by 16 per cent to 2,042 tonnes in the first nine months of this year. That ensured that gold demand in many countries would reach record levels in 1995.

Bigger crops in central and eastern Europe 'pose problems for EU'

By Alison Maitland

An upturn in grain production in central and eastern Europe poses a growing problem for the European Union, according to Dalgety, the UK animal feed company.

Eastern European countries have been net importers until recently, and this is still true for many countries of the former Soviet Union, it says in a CropPlan report.

But now several of them have become net exporters, competing in some of the EU's traditional markets and posing difficult questions over their accession to the EU.

Poland's harvest this year is estimated at 25m tonnes, an increase of 15 per cent on last year and the highest harvest for four years, says the report.

Romania, which is the region's second biggest cereal producer, is expected to produce 20m tonnes of grain, up 3m tonnes on last year, due to a fourth successive year of higher yields.

The Hungarian crop has been revised down to 10.4m tonnes, lower than last year's 11.1m tonnes, because of farmers' failure to apply herbicides on time. But it is still well up on the 1993 crop of just over 8m tonnes.

As a result, says Dalgety, the central and east European (CEEC) countries are expected to export 5m to 6m tonnes of grain this year – a figure the European Commission recently predicted would be reached by the year 2000.

"This turnaround is due to ever increasing yields and a significant reduction in internal usage predominantly owing to a reduction in animal numbers," says the report.

The main beneficiary is likely to be the Commonwealth of Independent States, particularly Russia, which has suffered its worst harvest for 30 years.

But grain demand in the former Soviet Union has dropped dramatically from over 22m tonnes in the late 1980s to about 6m tonnes this year, because of the reduction in livestock numbers.

"This, coupled with the CEEC switching into being net exporters must give us some cause for concern," says Dalgety. "There is clearly a long-term risk, particularly if the CIS gets back to harvesting well over 200m tonnes as it used to do regularly in the last decade."

The CEEC surplus could exceed 25m tonnes by 2000, it says. However, it stresses that this assumes consumption in the region remains unchanged. In practice, it is likely to rise as economies strengthen.

Slackening demand hits pulp prices

By Bernard Simon in Toronto

Wood pulp prices are under pressure amid softening demand for paper in many parts of the world and a flood of supplies from Russia and Indonesia.

Producers of northern bleached softwood kraft pulp (NBSK), the industry's benchmark product, have so far managed to maintain a price of US$985-$1,000 a tonne, which they implemented on Oct 1, but aggressive discounting has begun in several other grades.

According to one Vancouver-based trader, the entire market is "in a very sensitive situation" with prospects hingeing largely on demand for paper in the first quarter of 1996.

Prices of some hardwood grades have tumbled below $700 a tonne in recent weeks, from list prices of around $875. Several eucalyptus mills in Spain, Portugal and South America have been closed in an effort to bring down stocks.

Producers of southern bleached softwood kraft have also rolled back recent price increases from $970 to about $890.

Several North American mills have announced cutbacks. For instance, Harmac Pacific, a large Canadian producer, plans to shut a British Columbia softwood pulp mill for two weeks over Christmas to reduce stocks.

The Indonesians and Russians are burdened by surplus capacity and are said to have been especially aggressive in the hardwood pulp market. In addition, Chinese paper purchases, mainly from South Korea and Taiwan, have been hit by a new import duty. European and North American demand has also softened.

Until last summer, pulp was among the strongest performing commodities during the current business upturn. NBSK prices have soared from $390 to $1,000 in less than two years.

Brazil's aluminium boom stalls

The optimism of the early 1980s has faded, writes **Angus Foster**

At Latin America's biggest private sector aluminium refining and smelting project, operations manager Mr Edison Daniel da Silva points to a plot of land the size of several football pitches. It is the last plot left to expand capacity at the giant Alumar plant in northern Brazil, already responsible for about a third of the country's 1.2m tonnes of annual primary aluminium production. "With the present equipment, we can't go much further," he says. "What we could do is extend line 3, which would add another 55,000 tonnes."

But uncertainty about the world market and the plant's electricity supply are delaying any decision and Alumar's owners have no plans to make the investment. Brazil's aluminium industry has become equally circumspect. The forceful optimism of the early 1980s, when projects like Alumar were built and financed, has been replaced by a more cautious attitude.

"I don't think you will see a lot of smelter building any more," says Mr Fausto Penna Moreiro Filho, president of Alcoa Aluminio, the Latin American arm of Alcoa of the US, which is also the main shareholder in Alumar.

"The old idea that electricity was cheap is no longer true. You may see some incremental smelter expansions, but you won't see any green field sites being built."

The new realism was born of more than a decade of disappointment as Brazil's economy refused to grow during the 1980s. Investments in the aluminium industry, which more than tripled output between 1978 and 1985, had assumed the economy would continue to grow at 7 per cent or more. Instead, per capita GDP actually fell during the 1980s.

With growth under way again since 1993 and inflation apparently under control, confidence is returning. Aluminium consumption rose 19 per cent last year and is forecast to grow another 9 per cent this year to 510,000 tonnes, Abal, the industry association says.

Alcoa makes flat rolled products, foil and sheet at its Itapissuma plant in the State of Pernambuco

Mr Luis Carlos Loureiro Filho, co-ordinator of the association's economic commission, says cans and artefacts like kitchen pans have been star performers. With lower inflation, poorer consumers started buying canned beverages and household goods as their real incomes rose sharply.

One comparison industry members like to repeat shows the average Brazilian consuming ten cans a year, compared with 360 in the US. Three canmakers, including Crown, Cork & Seal and American National Can, have announced they will start production in Brazil, suggesting this sector is set for continued growth.

Despite such apparent good news, not one of the country's six producers of primary aluminium is planning to lift capacity, which has scarcely increased since 1990. With world stocks of the metal still high by historical standards, and with Brazil's economy slowing since the second quarter, such caution may be well placed. But some analysts wonder whether a more fundemental rethink is taking place.

"Is the non-investment in the 1990s a function of consolidation, or is the industry losing faith in its role as a smelter in the future?" asks Mr David Humphreys, an economist at RTZ, the UK mining group.

Brazil's mounting electricity problems are a further source of doubt. Underinvestment in generation in the past decade has left the country facing an energy shortage if present economic growth of 5 per cent a year continues. Average electricity prices for the aluminium industry have doubled since 1985 to US$34-39 per MegaWatt Hour. Building more giant hydro-electric dams in the Amazon, like the Tucurui dam, which supplies Alumar, would now be difficult to finance because of environmental concerns.

According to Mr Loureiro Filho at Abal, Brazil needs to remain an integrated producer because it needs to compete in areas of high added value goods rather than simply exporting primary products. As the world's sixth largest aluminium producer, the country also has the scale, as well as the natural resources. "Brazil will remain attractive as a producer of primary aluminium because of its market, which is now about 500,000 tonnes and which has the chance to grow," he adds.

However, reticence about increasing capacity will quickly impact on overseas sales of primary aluminium from Brazil, one of the world's biggest exporters. Exports peaked at 817,000 tonnes in 1992 but have since declined as producers have switched to the recovering domestic market. Abal estimates exports this year will fall 6.2 per cent to 729,800 tonnes and slip fall towards 700,000 tonnes next year if the domestic market grows at 6 per cent as expected.

Trade in the primary materials of bauxite (aluminium ore) and alumina (aluminium oxide) will be less affected. Extra domestic demand for bauxite can easily be absorbed by increasing production at the country's huge reserves in the Amazon. The Alunorte alumina project, stalled for several years because of financing problems, finally started operations in July. It is due to produce 230,000 tonnes this year and reach capacity of 1.1m tonnes a year in 1997.

The likely slowdown in exports of primary aluminium may herald a lower international profile for Brazil's aluminium industry, but it may have been inevitable for an industry that grew up too quickly.

"So you will just see a shift from exports to the domestic market as it grows. We have enough aluminium capacity in Brazil to supply the domestic market for the next 15 years," says Mr Moreira Filho at Alcoa.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1626-7	1663-4
Previous	1629.5-30.5	1667-8
High/low		1673/1656
AM Official	1622-4	1660-0.5
Kerb close		1665-6
Open int.	222,581	
Total daily turnover	40,388	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1365-75	1405-10
Previous	1365-70	1405-6
High/low		
AM Official	1365-75	1405-10
Kerb close		1410-20
Open int.	3,455	
Total daily turnover	2,521	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	676-7	673-4
Previous	684-5	682-3
High/low	679	679/672
AM Official	678.5-9.5	678-8.5
Kerb close		676-7
Open int.	32,116	
Total daily turnover	5,726	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	8235-45	8355-60
Previous	8450-60	8570-75
High/low	8340	8560/8290
AM Official	8340-45	8455-60
Kerb close		8285-90
Open int.	42,921	
Total daily turnover	14,848	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6275-85	6315-20
Previous	6350-60	6390-400
High/low	6290	6370/6290
AM Official	6290-95	6340-45
Kerb close		6320-30
Open int	17,642	
Total daily turnover	7,009	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1003.5-4.5	1027-8
Previous	1011-12	1035-6
High/low	1011/1010.5	1056/1028
AM Official	1010.5-11.0	1034-5
Kerb close		1029-31
Open int.	84,898	
Total daily turnover	14,593	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2955-60	2755-6
Previous	3018-23	2795-7
High/low	2975	2790/2744
AM Official	2978-80	2774-5
Kerb close		2747-48
Open int.	176,836	
Total daily turnover	101,007	

■ LME AM Official £/$ rate: 1.5603

LME Closing £/$ rate: 1.5590

Spot: 1.5581 3 mths: 1.5549 6 mths: 1.5515 9 mths: 1.5477

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	134.60	-1.30	136.55	134.20	251	1,629
Dec	130.20	-1.60	132.70	129.90	6,547	17,686
Jan	127.20	-1.75	129.40	127.60	51	965
Feb	125.20	-1.75	-	-	36	622
Mar	123.50	-1.45	125.40	123.20	1,325	9,331
Apr	121.85	-1.30	-	-	-	202
Total					8,425	38,847

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	385.70-386.10		
Opening	388.00-388.40		
Morning fix	385.60	246.673	437.089
Afternoon fix	385.30	247.304	436.815
Day's High	388.10-396.50		
Day's Low	385.00-385.40		
Previous close	385.70-386.00		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.91	6 months	3.20
2 months	2.91	12 months	3.39
3 months	2.93		

Silver Fix	p/troy oz	US cts equiv.
Spot	341.80	535.75
3 months	346.70	540.25
6 months	351.15	546.05
1 year	360.75	558.25

Gold Coins	$ price	£ equiv.
Krugerrand	385-387	247-249
Maple Leaf	396.55-399.05	-
New Sovereign	90-92	58-60

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	384.9	-0.8	-	-	20	-
Dec	385.6	-0.9	387.6	385.5	54,460	75,992
Feb	387.0	-1.1	389.0	386.8	9,327	29,897
Apr	389.0	-1.4	390.6	388.6	589	8,747
Jun	391.2	-1.5	393.0	392.0	406	14,725
Aug	393.4	-1.6	-	-	350	3,264
Total					65,735	172,139

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	417.5	+1.5	419.0	415.5	3,085	16,622
Apr	417.0	+1.5	418.2	416.5	40	2,450
Jul	417.5	+1.5	-	-	10	1,661
Oct	418.0	+1.5	419.0	419.0	3	373
Jan	419.0	+1.5	-	-	1	5
Total					3,118	21,111

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	136.65	+0.55	138.73	136.00	175	4,189
Mar	137.45	+0.55	137.50	137.00	27	2,097
Jun	138.80	+0.55	-	-	-	127
Total					202	6,413

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	533.2	+2.6	-	541.5	20	2
Dec	534.2	+2.2	537.0	531.5	16,061	52,397
Jan	535.7	+2.2	536.5	536.5	4	34
Mar	541.7	+2.2	544.5	540.0	5,393	24,300
May	545.8	+2.3	547.0	547.0	63	8,623
Jul	549.8	+2.4	551.0	549.5	39	5,945
Total					21,616	105,133

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	17.94	+0.12	17.97	17.82	25,869	40,378
Jan	17.65	+0.09	17.68	17.54	20,274	86,164
Feb	17.43	+0.07	17.45	17.38	5,973	39,056
Mar	17.30	+0.06	17.34	17.27	6,412	21,299
Apr	17.18	+0.03	17.22	17.18	3,263	12,645
May	17.10	+0.04	17.10	17.08	1,416	9,395
Total					71,253	329,114

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	16.74	+0.12	16.75	16.65	7,752	17,268
Jan	16.46	+0.09	16.50	16.37	16,676	83,064
Feb	16.23	+0.05	16.26	16.20	6,244	16,841
Mar	16.07	+0.04	16.11	16.05	1,146	12,875
Apr	15.93	+0.01	15.99	15.91	2,548	7,583
May	15.87	+0.02	15.87	15.87	20	1,937
Total					32,638	153,812

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	51.75	+0.19	51.95	51.55	13,993	35,560
Jan	52.00	+0.26	52.15	51.75	4,847	43,478
Feb	51.50	+0.31	51.60	51.16	1,783	24,020
Mar	50.15	+0.26	50.30	49.95	1,477	10,025
Apr	48.50	+0.21	48.60	48.50	187	4,869
May	47.40	+0.26	47.40	47.40	218	3,790
Total					22,780	141,627

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	154.00	+1.50	154.00	152.75	7,476	29,801
Jan	154.25	+1.25	154.25	153.50	3,852	21,110
Feb	152.75	+0.50	153.00	152.25	701	7,287
Mar	151.50	+0.75	151.50	151.00	104	4,240
Apr	150.00	+0.50	150.00	149.50	120	2,404
May	148.50	+0.25	148.50	148.25	50	1,090
Total					12,418	74,922

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	1.910	+0.004	1.915	1.891	14,636	28,390
Jan	1.923	-0.009	1.936	1.908	8,310	28,566
Feb	1.865	-0.005	1.873	1.850	5,996	15,740
Mar	1.790	-0.005	1.795	1.775	3,898	13,473
Apr	1.698	-0.012	1.709	1.690	1,823	8,675
May	1.702	-0.013	1.710	1.695	1,567	6,978
Total					38,909	142,122

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	51.25	+0.62	51.45	50.65	7,734	17,356
Jan	50.70	+0.66	50.80	50.25	3,849	16,990
Feb	51.00	+0.57	51.05	50.70	1,854	6,937
Mar	51.30	+0.52	51.35	51.05	702	3,193
Apr	53.40	+0.20	53.40	53.40	327	3,705
May	53.65	+0.45	53.65	53.40	33	1,960
Total					14,709	52,869

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	128.00	+0.85	128.00	127.30	28	88
Jan	129.00	+0.75	129.00	128.25	197	2,215
Mar	131.00	+0.75	131.00	130.25	384	2,422
May	133.00	+0.75	133.00	132.25	240	2,879
Jul	135.25	+1.15	135.25	134.90	36	155
Sep	116.50	-1.00	117.00	117.00	1	31
Total					918	8,223

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	484.25	-6.25	491.00	483.50	10,292	32,657
Mar	486.75	-8.25	496.00	486.00	7,312	44,465
May	454.25	-6.50	461.00	453.00	400	4,393
Jul	411.50	-3.50	415.50	411.00	1,999	18,275
Sep	414.00	-3.00	415.50	414.00	38	2,878
Dec	422.75	-1.75	424.00	422.50	241	981
Total					20,282	103,687

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	320.75	-1.00	323.75	320.25	47,638	122,487
Mar	328.25	-1.25	331.50	328.00	79,889	242,961
May	329.00	-0.75	331.75	328.75	9,809	39,755
Jul	326.75	-0.75	329.25	326.25	7,470	52,179
Sep	290.00	-1.00	291.25	289.75	814	9,228
Dec	277.25	-0.50	278.50	277.00	4,576	24,853
Total					150,289	493,181

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	117.50	-1.00	118.25	118.00	14	72
Jan	119.80	-0.65	119.85	119.50	61	977
Mar	121.80	-0.45	122.00	121.50	98	694
May	124.15	-0.75	124.15	124.15	11	242
Sep	113.50	+1.00	-	-	-	12
Nov	113.50	-1.00	-	-	-	5
Total					178	1,980

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	669.50	-0.75	673.25	669.00	2,032	3,011
Jan	674.75	-2.00	679.00	674.25	38,923	81,924
Mar	682.50	-2.25	687.00	682.25	8,191	38,558
May	686.75	-2.25	690.75	686.50	1,210	12,959
Jul	686.75	-2.00	693.00	688.25	2,443	17,404
Aug	686.00	-2.00	688.50	686.50	74	974
Total					55,375	169,718

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	25.43	+0.06	25.58	25.33	16,329	27,887
Jan	25.58	-	25.77	25.55	10,550	25,405
Mar	25.96	-	26.13	25.95	5,430	15,800
May	26.26	+0.01	26.42	26.30	2,767	8,765
Jul	26.43	-0.01	26.58	26.43	1,199	7,187
Aug	26.50	-	26.65	26.50	211	1,226
Total					36,084	88,201

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	208.5	-	207.2	206.4	13,356	32,947
Jan	207.6	-	208.4	207.6	8,896	25,387
Mar	209.6	+0.3	210.3	209.4	6,280	23,416
May	209.5	+0.1	210.4	209.5	1,698	7,548
Jul	209.7	+0.1	210.4	209.5	1,282	9,110
Aug	208.2	+0.4	208.8	208.2	78	969
Total					31,780	101,319

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	270.0	-	-	-	-	-
Apr	267.0	-15.3	278.0	265.0	144	1,180
May	305.0	-30.0	-	-	-	6
Jun	325.0	-	-	-	-	-
Total					144	1,188

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1740	-20	1765	1735	59	657
Dec	1680	-59	1743	1675	81	283
Jan	1629	-61	1705	1605	291	1,266
Apr	1620	-60	1700	1590	228	1,366
Jul	1420	-53	1420	1420	5	405
Oct	1533	-47	1580	1580	21	81
Total					684	4,058

	Close	Prev
BFI	1709	1681

FUTURES DATA

All futures data supplied by CMS.

Nuts and Seeds

Prices from Kenkko Group; US$ a tonne. Indian Pistachios 28/30 raw (in shell) naturally opened (round); 1994 crop sold out; new crop 3,500 CFR/FOT MEP, 26/28 3,600 CFR/FOT MEP (both available December) up slightly. US almonds (shelled) 23/25 NPSSR 1995 crop at 5,550 FAS, weak. Crop figures higher than expected, but shipments problems remain. US walnuts (shelled) light halves and pieces, 1995 crop at 5,850 FOB, very firm. Indian cashews, raw, W320, at 6,280 FOT Rotterdam, spot: prices firming on short stocks. Turkish hazelnut kernels, 13/15 standard 1s, 1995 crop at 3,150 C&F MEP, falling. Turkish apricots, 1995 crop at 2,550 CFR MEP, special offer for spot. North Dakota sunflower seeds, 1995 crop; 22/64 at 950 CIF MEP, 20/64 at 950; very difficult.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	933	+3	935	925	1,120	13,700
Mar	968	+3	970	962	1,514	34,661
May	984	+2	987	980	402	14,372
Jul	1001	+2	1003	1001	135	4,989
Sep	1022	+4	1024	1018	179	26,167
Dec	1035	+3	-	1035	100	6,368
Total					3,612	117,874

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1364	+24	1368	1340	6,195	6,431
Mar	1387	+16	1388	1372	8,114	42,842
May	1403	+12	1403	1395	348	8,759
Jul	1423	+12	1421	1419	56	3,553
Sep	1444	+12	1447	1444	25	9,400
Dec	1469	+12	1470	1462	185	7,091
Total					15,255	78,954

■ COCOA (ICCO) (SDR's/tonne)

Nov 14	Price	Prev. day
Daily	959.13	947.69

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	2503	+14	2515	2445	138	1,465
Jan	2305	-20	2320	2274	1,962	14,688
Mar	2216	-24	2230	2195	444	7,377
May	2143	-22	2140	2125	170	3,732
Jul	2083	-25	2080	2070	79	1,064
Sep	2038	-27	2040	2040	61	314
Total					2,854	28,650

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	125.45	+1.30	126.00	123.80	5,958	8,314
Mar	122.20	+1.90	122.50	119.80	4,975	11,330
May	119.65	+2.15	119.75	118.00	297	2,829
Jul	119.25	+2.75	119.25	116.75	13	803
Sep	118.10	+2.85	116.75	116.00	10	313
Dec	117.10	+2.85	-	-	1	248
Total					11,254	23,820

■ COFFEE (ICO) (US cents/pound)

Nov 14	Price	Prev. day
Comp. daily	120.98	123.33
15 day average	121.05	121.13

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	13.25	-	-	-	-	-
Mar	10.90	-	-	-	-	-
May	10.72	-	-	-	-	-
Jul	10.72	-	-	-	-	-
Total					-	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	378.0	+1.5	379.9	366.0	1,885	1,444
Mar	342.5	+3.0	342.5	338.5	783	15,424
May	331.8	+2.1	332.0	328.2	565	5,127
Aug	322.2	+0.9	322.9	319.8	728	3,183
Oct	292.6	+0.2	292.8	290.6	203	2,615
Dec	284.7	-1.5	285.3	284.0	56	1,118
Total					4,228	29,121

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.83	+0.09	10.94	10.68	6,805	76,750
May	10.67	+0.14	10.75	10.50	1,619	21,226
Jul	10.35	+0.07	10.45	10.24	1,037	13,770
Oct	10.26	+0.07	10.33	10.16	1,100	15,637
Mar	10.20	+0.07	10.20	10.14	485	9,550
May	10.11	+0.07	10.17	10.03	100	991
Total					11,386	138,176

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	88.40	+1.75	88.64	86.10	3,457	12,340
Mar	85.83	+1.59	87.18	85.00	3,670	20,177
May	86.95	+1.43	87.10	85.15	667	8,575
Jul	86.60	+1.35	87.10	85.45	222	6,624
Oct	80.25	+0.02	80.25	79.80	42	1,443
Dec	77.10	-0.15	77.30	76.80	89	7,172
Total					8,157	57,401

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	122.85	+1.45	123.15	120.50	1,604	18,638
Mar	125.50	+1.60	125.60	123.10	1,194	4,695
May	127.85	+1.60	127.90	125.75	114	1,555
Jul	130.10	+1.60	-	-	118	687
Sep	132.35	+1.60	-	-	1	869
Nov	132.35	+1.60	131.00	131.00	92	219
Total					3,030	26,660

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Nov 15	Nov 14	month ago	year ago
2172.6	2171.4	2088.5	2136.9

■ CRB Futures (Base: 1967=100)

Nov 14	Nov 13	month ago	year ago
242.02	242.82	-	-

■ GSCI Spot (Base: 1970=100)

Nov 14	Nov 13	month ago	year ago
184.42	184.99	180.85	177.49

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	68.575	-0.225	68.975	68.450	4,838	28,333
Feb	68.100	-0.175	68.500	67.975	2,998	20,034
Apr	67.600	-0.075	67.825	67.475	1,396	12,309
Jun	63.850	-	64.000	63.725	446	5,168
Aug	61.950	-0.050	62.100	61.900	174	2,124
Oct	62.875	-0.050	62.975	62.850	152	1,952
Total					10,004	70,309

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	44.325	+0.025	44.750	44.075	2,447	9,366
Feb	47.300	-0.075	47.975	47.075	2,215	10,101
Apr	47.375	-0.450	48.000	47.350	627	4,018
Jun	53.150	-0.325	53.500	53.050	398	3,792
Jul	52.700	-0.325	53.250	52.675	140	2,147
Aug	51.800	-0.400	52.150	51.800	275	1,042
Total					6,132	31,135

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	57.350	-0.775	58.100	57.200	1,323	4,795
Mar	57.600	-0.675	58.175	57.300	151	737
May	58.625	-0.400	59.100	58.500	26	383
Jul	59.700	-0.575	59.950	59.300	23	494
Aug	57.200	-0.500	57.500	57.200	33	124
Total					1,530	6,533

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Dec	Feb	Dec	Feb
1600	56	109	12	40
1700	10	57	66	86
1800	-	26	-	154
■ COPPER (Grade A) LME	Dec	Feb	Dec	Feb
2800	81	68	28	130
2900	31	-	78	-
3000	9	-	155	-
■ COFFEE LCE	Jan	Mar	Jan	Mar
1600	705	-	-	6
1650	655	-	-	9
1700	605	529	-	13
■ COCOA LCE	Dec	Mar	Dec	Mar
875	58	103	-	10
900	33	84	-	16
925	10	67	2	24
■ BRENT CRUDE IPE	Dec	Jan	Dec	Jan
1550	105	99	6	20
1600	62	61	15	38
1650	32	40	34	65

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jan)

		+or-
Dubai	$15.45-5.40w	+0.105
Brent Blend (dated)	$16.63-6.67	+0.07
Brent Blend (Jan)	$16.45-6.46	+0.11
W.T.I. (1pm est)	$17.62-7.63w	+0.08

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$187-189	+3
Gas Oil	$157-158	+1
Heavy Fuel Oil	$83-85	-1.5
Naphtha	$147-150	-1
Jet fuel	$175-176	+2
Diesel	$161-162	+1

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

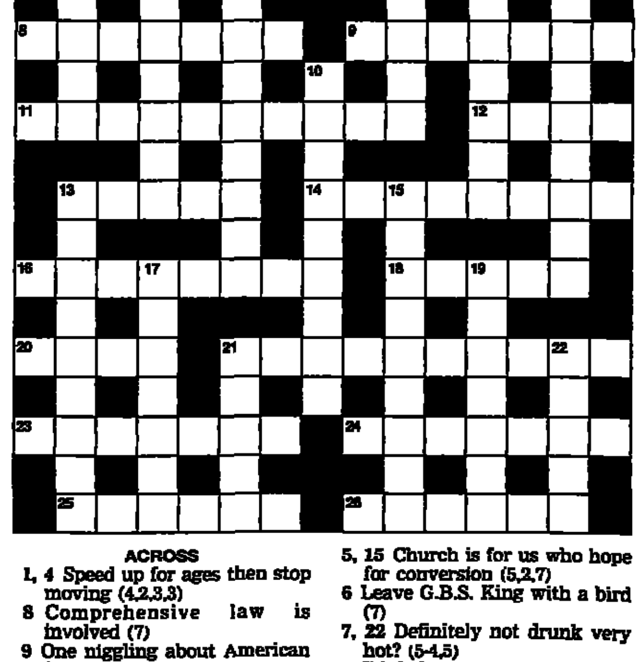
Gold (per troy oz)♣	$385.90	+0.05
Silver (per troy oz)♣	536.5c	+3.0
Platinum (per troy oz.)	$415.15	+0.65
Palladium (per troy oz.)	$134.40	-0.10
Copper	125.0c	
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	15.79m	-0.20
Tin (New York)	299.5c	-3.0
Cattle (live weight)†	123.87p	-1.94*
Sheep (live weight)†♠	108.58p	-0.67*
Pigs (live weight)†	100.14p	-0.38*
Lon. day sugar (raw)	$301.1	-2.20
Lon. day sugar (wte)	$378.0	-3.5
Barley (Eng. feed)	£126.0	
Maize (US No3 Yellow)	£105.5w	
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	110.75p	
Rubber (Dec)♥	110.75p	
Rubber (KL RSS No1)	415.0m	+4.5
Coconut Oil (Phil)§	$755.0y	-10.0
Palm Oil (Malay.)§	$607.5y	
Copra (Phil)§	437.0y	-2.0
Soyabeans (US)	194.0u	-1.0
Cotton Outlook'A' index	88.40c	-0.35
Wooltops (64s Super)	456p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Dec. u Nov/Jan.♥ w Jan. y Nov/Dec. x Oct/Dec London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight priced). * Change on week † Prices are for previous day.

JOTTER PAD

CROSSWORD

No.8,920 Set by GRIFFIN



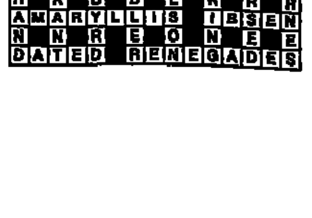
ACROSS

1, 4 Speed up for ages then stop moving (4,2,3,3)
8 Comprehensive law is involved (7)
9 One niggling about American fellow with pimple (7)
11 Arsonist will if celebrity volunteers with keenness (5,1,4)
12 Swear Vera's mad! (4)
13 Took a picture of hidden animal (5)
14 Turns to let one in (8)
16 Figure you'll need fish after a month (8)
18 Having set aside one less, flourished (5)
20 Spring right into box (4)
21 This berth I reserve for UK inhabitants (3,7)
23 Didn't sit near but was prepared (5,2)
24 Heavenly creatures giving cold man massages! (7)
25, 26 Landlord Frank requires ruler and paper-knife (6,6)

DOWN

1, 13 down Shot for writing about chief lacking funds (5,2,7)
2 Shops crooked pair for grabbing ring after upsetting me (7)
3, 21 down People lie here patiently (9,5)
5, 15 Church is for us who hope for conversion (5,2,7)
6 Leave G.B.S. King with a bird (7)
7, 22 Definitely not drunk very hot? (5-4,5)
10 I'd led astray many people without using intermediaries (9)
13 See 1 down
15 See 5
17 Left behind look for aerodrome (7)
19 Old soldier in vehicle damaged tree (7)
21 See 3
22 See 7

Solution 8,919



INTERNATIONAL CAPITAL MARKETS

French deficit news lifts European sector

By Richard Lapper in London and Lisa Bransten in New York

Positive news on the French fiscal deficit combined with fundamentals pointing to lower growth and waning inflationary pressure buoyed the European bond markets yesterday.

The German and UK markets rose strongly in morning trading before losing some ground in the afternoon due to a combination of profit-taking and disappointing inflation statistics in the US.

The dollar stabilised, but its weakness in Asia overnight contributed to underperformance by high-yielding bonds, with the 10-year yield spread of Italian bonds over German bunds widening by 3 basis points to 535 points.

■ French bonds responded positively to news of the government's plans to reduce its social security deficit. Prime Minister Alain Juppé said the deficit would fall to FFr17bn in 1996. On Matif the 10-year December future gained more than half a point, while the three-month Pibor contract closed up 0.10 at 94.17, continuing its strong recent advance.

■ German bond prices rose strongly after a cut in the securities repurchase rate fanned expectations of a reduction in interest rates. The repo rate cut of two basis points was in line with expectations, taking it down to 3.98 per cent.

Mr Graham McDevitt bond strategist with Banque Paribas, said the change in the headline number from 'four' to 'three' had an important "psychological impact" on the markets.

There are hopes in some quarters that the discount rate could be reduced when the Bundesbank's council meets today. "While the market call is for no change in official rates, we are definitely entering the 'amber alert zone' now for an early German rate cut," said Mr David Brown at Bear

GOVERNMENT BONDS

Stearns. "We tend to put the chances of a 25 basis point discount rate cut at 50:50 tomorrow, as all the pre-conditions are pointing to lower rates."

■ Fresh economic data in the UK provided further evidence that the economy is slowing and helped gilts continue their rally.

On Liffe, the December long gilt contract surged to a high of 108⅜, before falling back in the afternoon, partially as a result of sterling weakness. It closed at 107$\frac{21}{32}$, down $\frac{1}{32}$.

■ US Treasury prices were flat in early afternoon trading as traders took to the sidelines amid mixed economic news and uncertainty regarding the passage of a budget package.

Near midday, the benchmark 30-year Treasury was unchanged at 107$\frac{27}{32}$ to yield 6.283 per cent and the two-year note was also unchanged at 100$\frac{5}{32}$, yielding 5.453 per cent.

In Washington, skirmishing continued between Congress and the administration over a deficit-reducing budget package, although the Treasury Department took action that allowed it to make yesterday's $25bn interest payment.

Mr Robert Rubin, Treasury Secretary, said his actions to circumvent the debt ceiling should allow the Treasury to continue making payments until at least late December.

The Federal Reserve's Open Market Committee was meeting yesterday but few on Wall Street believed there would be a rate cut before Congress and the president agreed to a deficit-cutting package.

Economic data released yesterday supported the belief that the economy has slowed, with industrial production off 0.3 per cent in October after September's 0.1 per cent increase. Capacity utilisation slipped to 83.6 in October from 84.1 in September.

However, the Consumer Price Index rose 0.3 per cent in October – both with and without the volatile food and energy components – slightly more than the mean forecast of a 0.2 per cent rise.

Mercury One-2-One sets cellular phone benchmark

By Alan Cane and Antonia Sharpe

Mercury One-2-One, the mobile phone company owned by Cable & Wireless and US West, has completed a £600m syndicated loan which it will use to pay back debt and continue the development of its network.

It is believed to be the first UK non-recourse financing for a cellular phone group to be successfully completed. Hutchison Telecom which operates the Orange cellular network, which is technically similar to One–2–One, announced recently that it is raising £1.2bn in bank financing.

Mr Richard Goswell, managing director of One–2–One, said it was a substantial vote of confidence in the mobile phone business and a benchmark for future lending to cellular phone companies.

The loan is a three-year revolving credit converting into a four-year term loan. Pricing has been set at 150 basis points over London interbank offered rate (Libor), ratcheting down to 50 basis points over Libor if pre-set debt to cash-flow ratios are achieved. The loan, which was 30 per cent oversubscribed, was arranged by Paribas and HSBC.

Most of the cash will be used to pay back the equipment manufacturers, Ericsson and Nortel, which helped fund the launch.

SYNDICATED LOANS

The remainder will be used to complete expansion of the network to 90 per cent of total population coverage within two years. Mr Goswell said he expected the company to generate sufficient cash by then to complete the network without recourse to further debt finance.

● Gaz de France, the state gas utility, has increased the size of its seven-year revolving credit facility to $450m from the original $400m after more than $600m was raised in general syndication.

Despite the increase, all banks will have their participations scaled back. The facility is now closed and will be signed in mid-December.

● Export Credit Bank of Turkey is seeking to raise $150m by way of a two-year syndicated loan guaranteed by the republic. The loan, which carries a margin of 125 basis points over Libor, has been fully underwritten by ABN Amro, Citibank, Dai-Ichi Kangyo, Sabanci, Sakura and Sanwa. Participation fees range up to 80 basis points.

● ANZ has arranged what it says is the first export-finance deal in Vietnam from the US since the normalisation of diplomatic relations between the two countries.

The $12m seven-year package will enable the state-owned Vietnam Waterway Construction Corporation to purchase two dredges and spare parts from Ellicott Machine Corporation International of Baltimore. The loan was not widely syndicated and pricing was not disclosed.

Colombia to extend investor base in D-Marks

By Conner Middelmann

Bond investors are turning their attention to the forthcoming D-Mark debut of the Republic of Colombia, a DM200m five-year bond issue.

After issuing Yankee and Samurai bonds and one dollar eurobond, Colombia has chosen to tap the D-Mark sector to

INTERNATIONAL BONDS

further extend its investor base, Mr Clemente del Valle, director-general of public credit at the Colombian Ministry of Finance, said yesterday. He said Colombia plans to raise between $800m and $900m on the international debt markets next year.

Although Colombia's President Ernesto Samper remains under investigation over allegations that he knowingly accepted contributions from the Cali drugs cartel during last year's elections, Mr del Valle said institutional investors were more likely to focus on Colombia's positive economic fundamentals and its investment-grade credit rating.

The bonds are expected to be launched early next week, and dealers are talking of a spread of between 160 and 170 basis points over the interpolated yield curve. Deutsche Morgan Grenfell and SBC Warburg are joint leads.

SNCF, the French national railway, yesterday issued $250m of three-year bonds via BNP Capital Markets, CS First Boston and DKB. Yielding five basis points over Treasuries, some dealers felt the deal was tightly priced.

However, the lead managers reported good demand from Swiss investors, who are still keen on short-dated dollar bonds – especially ahead of some $10bn of dollar bond redemptions in December.

In the nascent Czech koruna sector, Deutsche Bank Finance raised Kč1bn of 10.5 per cent three-year bonds via DMG, targeted mainly at German retail keen on the substantial yield pick-up over bunds.

Tuesday's $250m 10-year issue for Telstra ran into trouble amid media reports of financial crisis at the state-owned Australian telecommunications company, based on a leaked internal memo.

Lead manager J. P. Morgan offered to buy bonds from investors and members in the syndicate group at cost, although it did not report heavy flow-back.

"J. P. Morgan acted very honourably – this sort of thing is a syndicate manager's nightmare," said a dealer at another bank. Telstra claimed the news reports had "sensationalised" what was a normal budgetary review to ensure that 1995–96 commitments were met.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
SNCF	250	5.50	99.515R	Dec.1998	0.1875R	+5(WI 3yr)	BNP /CSFB /DKB Intl.
World Bank★	50	5.00#	97.894	Nov.2000	undisd.	-	Kokusai Europe
D-MARKS							
Inter-American Dev'ment Bank	140	5.00	98.91	Dec.2000	0.25	-	Nikko Bank (Deutschland)
CNCP/NKBK Intl. Finance	100	5.75	102.10	Dec.2000	2.50	-	SGZ Bank
YEN							
International Finance Corp.★	15bn	(a)	100.40	Nov.2025	0.40	-	DKB International
Bladex(b)★	10bn	5.00#	100.00	Dec.1995	1.00	-	Nikko Europe
SWISS FRANCS							
City of Vienna(f)	220	3.50	102.50	Jan.2002	2.25	-	Von Ernst/IBJ/Merrill/SBC
International Endesa‡	150	(c)	100.50	Jan.2000	undisl.	-	Credit Suisse
FRENCH FRANCS							
Compagnie Bancaire‡	1bn	(d)	100.025R	Jun.1997	0.125R	-	CCF
CZECH KORUNA							
Deutsche Bank Finance	1bn	10.50	100.90	Dec.1998	1.50	-	Deutsche Morgan Grenfell

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 6% in A$ or 5.55% in DM. b) Coupon in Yen, redemption in $. c) 3-mth Libor -⅛%. d) 3-mth Pibor +5bp. f) Long 1st coupon.

Housing finance for New World

By Simon Holberton in Hong Kong

New World Development, the Hong Kong property, hotels and infrastructure conglomerate, is expected to announce tomorrow that it has raised more than US$200m from private investors for its mass housing projects in China.

The recapitalisation of NW China Homeowner Development, which has projects in four large Chinese cities, completes the largest part of the group's restructuring.

Since the beginning of last month, New World has raised US$260m from the listing in New York of Renaissance Hotel Group, and US$300m from the listing in Hong Kong of New World Infrastructure, the company which holds New World's interests in Hong Kong and Chinese ports, roads, bridges and power stations.

In the final leg of the reorganisation, the company plans to approach US credit markets to raise about $300m. Morgan Stanley is advising it on the capital raising, while credit ratings have been sought from Moody's and Standard & Poors.

New World has raised US$215m from mainly Hong Kong investors, but the Singapore government and Bank of China group have participated as well. The company will retain a 57 per cent interest in NW China Homeowner.

It has agreements to construct mass housing in Wuhan, Shenyang, Huizhou, and Tianjin. The project in Wuhan – the most advanced – comprises 4m sq m of housing, retail and commercial space and has a six to seven-year construction life. The development will house up to 57,000 families.

The company claims the development will provide investors with an after-tax return of 25 per cent. It said the project served a social function in Wuhan, so many local taxes and imposts had been waived, thereby improving financial returns. Furthermore, the company has rights to develop retail and commercial space in the estate.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		7.500	07/05	92.8000	-	8.61	8.62	8.53
Austria		6.875	06/05	100.7000	+0.180	6.77	6.86	6.85
Belgium		6.500	03/05	97.9600	+0.260	6.79	6.83	7.13
Canada *		8.750	12/05	108.0400	+0.050	7.59	7.59	7.61
Denmark		7.000	12/04	98.4000	+0.300	7.58	7.62	7.95
France	BTAN	7.750	04/00	105.6250	+0.250	6.17	6.27	6.87
	OAT	7.750	10/05	105.3200	+0.690	6.99	7.07	7.59
Germany Bund		6.500	10/05	101.3900	+0.140	6.30	6.36	6.59
Ireland		6.250	10/04	90.0000	+0.250	7.85	7.88	8.19
Italy		10.500	09/05	95.2000	+0.200	11.32†	11.32	11.63
Japan	No 129	6.400	03/00	120.3580	+0.355	1.41	1.52	1.60
	No 174	4.600	09/04	113.4230	+0.279	2.72	2.75	2.73
Netherlands		7.000	06/05	104.8500	+0.300	6.30	6.40	6.65
Portugal		11.875	02/05	105.7600	+0.240	10.84	11.05	11.25
Spain		10.150	01/06	95.8000	+0.810	10.52	10.85	10.94
Sweden		6.000	02/05	80.6840	-0.050	9.19	9.12	9.48
UK Gilts		8.000	12/00	103-11	+2/32	7.19	7.20	7.49
		8.500	12/05	104-26	+4/32	7.80	7.78	8.06
		9.000	10/08	108-18	+5/32	7.93	7.91	8.17
US Treasury *		6.500	08/05	103-30	+1/32	5.98	5.94	6.06
		6.875	08/25	107-27	+1/32	6.29	6.27	6.42
ECU (French Govt)		7.500	04/05	100.4900	+0.240	7.42	7.49	7.87

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	5.56	Two year	5.47
Prime rate	8¾	Two month	5.54	Three year	5.56
Broker loan rate	7½	Three month	5.53	Five year	5.70
Fed.funds	5$\frac{13}{16}$	Six month	5.50	10-year	5.95
Fed.funds at intervention	-	One year	5.43	30-year	6.28

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	118.20	118.80	+0.48	118.86	118.20	139,648	107,304
Mar	117.48	118.02	+0.46	118.00	117.48	2,923	12,357
Jun	117.66	118.24	+0.50	118.10	117.66	392	2,956

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
115	-	-	-	0.02	0.48	-
116	2.78	-	-	0.04	0.70	-
117	1.83	1.92	-	0.10	1.00	-
118	1.02	1.37	-	0.24	-	-
119	0.46	0.89	1.46	0.68	-	-

Est. vol. total, Calls 38,039 Puts 56,452 . Previous day's open int., Calls 160,827 Puts 169,455.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.46	97.68	+0.15	97.73	97.45	110125	203021
Mar	96.91	97.06	+0.15	97.09	96.91	3732	12892

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
9750	0.37	0.40	0.65	0.85	0.19	0.82	1.07	1.27
9800	0.14	0.24	0.46	0.64	0.46	1.16	1.38	1.56
9850	0.04	0.13	0.32	0.48	0.86	1.55	1.74	1.90

Est. vol. total, Calls 18958 Puts 16281. Previous day's open int., Calls 217491 Puts 208757

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	103.18	103.50	+0.15	103.58	103.07	37629	41161
Mar	102.85	103.11	+0.16	103.14	102.85	482	2480

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Dec	CALLS Mar	PUTS Dec	PUTS Mar
10350	0.49	1.84	0.49	2.23
10400	0.27	1.62	0.77	2.51
10450	0.15	1.42	1.15	2.81

Est. vol. total, Calls 4202 Puts 1373. Previous day's open int., Calls 49438 Puts 48581

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	90.24	90.82	+0.51	90.83	90.16	56,606	35,430
Mar	90.50	90.65	+0.52	90.70	90.50	715	2,512

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	107-24	107-31	+0-05	108-12	107-22	76927	102501
Mar	107-20	107-11	+0-05	107-18	107-12	86	5569

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
107	1-12	1-20	1-46	2-00	0-14	0-62	1-24	1-42
108	0-34	0-53	1-15	1-31	0-36	1-31	1-57	2-09
109	0-12	0-31	0-55	1-05	1-14	2-09	2-33	2-47

Est. vol. total, Calls 4792 Puts 2942. Previous day's open int., Calls 36657 Puts 33501

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	88.50	88.74	+0.22	88.74	88.50	3,258	8,699

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	117-14	117-15	+0-01	117-29	117-09	311,689	394,081
Mar	117-04	117-04	+0-01	117-18	116-30	14,676	51,854
Jun	116-29	116-21	+0-02	116-31	116-16	389	10,540

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	122.25			122.54	122.25	4696	0
Mar	120.92			121.17	120.92	2925	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Nov 15	Day's change %	Tue Nov 14	Accrued interest	xd adj. ytd
1 Up to 5 years (22)	122.16	+0.03	122.13	1.84	9.72
2 5-15 years (21)	146.41	+0.09	146.28	1.15	11.73
3 Over 15 years (9)	163.05	+0.17	162.77	1.88	12.13
4 Irredeemables (6)	186.03	+0.45	185.19	0.62	13.47
5 All stocks (58)	142.13	+0.09	142.00	1.54	11.18

	Low coupon yield Nov 15	Low Nov 14	Low Yr. ago	Medium coupon yield Nov 15	Medium Nov 14	Medium Yr. ago	High coupon yield Nov 15	High Nov 14	High Yr. ago
5 yrs	7.30	7.30	8.45	7.31	7.31	8.52	7.39	7.40	8.64
15 yrs	7.94	7.96	8.45	7.99	8.01	8.56	8.05	8.08	8.81
20 yrs	8.00	8.02	8.43	8.03	8.05	8.56	8.08	8.11	8.71
Irred.†	8.06	8.10	8.49						

Index-linked	Wed Nov 15	Day's change %	Tue Nov 14	Accrued interest	xd adj. ytd
6 Up to 5 years (1)	194.52	+0.01	194.50	0.48	6.37
7 Over 5 years (11)	187.57	+0.12	187.35	1.09	4.45
8 All stocks (12)	187.59	+0.12	187.38	1.07	4.54

	Inflation 5% Nov 15	Nov 14	Yr. ago	Inflation 10% Nov 15	Nov 14	Yr. ago
Up to 5 yrs	3.12	3.11	3.93	2.05	2.04	2.67
Over 5 yrs	3.63	3.64	3.84	3.44	3.45	3.64

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Nov 15	Nov 14	Nov 13	Nov 10	Nov 9	Yr ago	High*	Low*
Govt. Secs. (UK)	94.33	94.35	94.07	93.84	94.14	91.59	95.51	90.22
Fixed Interest	112.82	112.76	112.58	112.62	112.95	108.22	114.66	108.77

* for 1995. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Nov 14	Nov 13	Nov 10	Nov 9	Nov 8
Gilt Edged bargains	79.5	72.7	81.7	85.4	79.0
5-day average	79.7	79.6	79.6	82.3	83.5

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on November 15

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 5 97	1000	99⅛	99¼	+⅛	5.75
[illegible]					
Sweden 8 97	2500	103¼	103⅞		4.35
United Kingdom 7⅛ 97	5500	105⅛	105½		4.20
[illegible]					
Abbey Natl Treasury 8 03 £	1000	99⅛	99¼	+⅛	8.15
[illegible]					

SWISS FRANC STRAIGHTS [illegible]

YEN STRAIGHTS [illegible]

OTHER STRAIGHTS [illegible]

DEUTSCHE MARK STRAIGHTS [illegible]

FLOATING RATE NOTES [illegible]

CONVERTIBLE BONDS [illegible]

* No information available - previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	1995 High	1995 Low
Shorts" (Lives up to Five Years)						
Treas 14pc 1996	13.82	6.50	101$\frac{5}{16}$	-$\frac{1}{32}$	106⅞	101$\frac{5}{16}$
Treas 12½pc 2003-5	9.80	7.80	127$\frac{19}{32}$			
Treas 8½pc 2005‡‡	8.11	7.80	104¾			
[illegible]						

Five to Fifteen Years [illegible]

Over Fifteen Years [illegible]

Undated [illegible]

Index-Linked [illegible]

Other Fixed Interest [illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for February 1995: 146.9 and for September 1995: 150.6.

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock.

MARKETS REPORT

Politics and rumours drive sterling to new low

By Philip Gawith

The heady brew of a soggy dollar, political rumour, the upcoming budget and weak economic data was yesterday sufficient to drive the pound to a new low on a trade-weighted basis.

The pound has been dragged lower recently by the weaker dollar, but the catalyst for the further fall was the release of economic data which left traders thinking that the UK economy may, in the weeks ahead, face both a stimulatory budget and a cut in interest rates.

Aggravating matters was a rumour, later shown to be wrong, that another Tory MP would be defecting to the Labour party, further crimping the government's already small majority.

Sterling hit a new record low of 82.5 on a trade weighted basis. The previous low of 82.7 was reached on May 9. It is also came within a whisker of its historic low against the D-Mark, finishing in London at DM2.1847, from DM2.2123. The historic low of DM2.1755 was also reached on May 9. Against the dollar it finished at $1.5579, from $1.564.

The dollar had lost ground overnight during Asian trading, but it was fairly stable in Europe, finishing at DM1.4024, from DM1.4145, and at Y101.035, from Y101.54. The continued budget impasse has weighed down on the currency, but the diminished likelihood of a debt default appeared to curb any instinct to sell the dollar aggressively.

In Europe, the French franc finished marginally weaker against the D-Mark after the government announced it was imposing a new 0.5 per cent tax on most income to repay welfare debt.

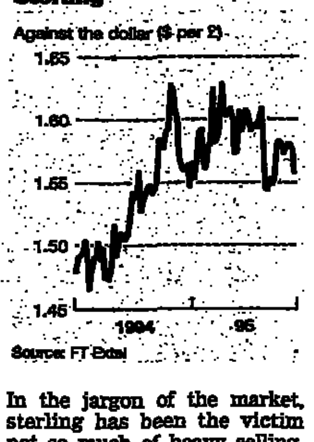
■ Pound in New York

Nov 15	—Latest—	-- Prev. close --
£ spot	1.5580	1.5595
1 mth	1.5578	1.5583
3 mth	1.5557	1.5565
1 yr	1.5446	1.5450

■ Sterling's descent to a historic low has been more by default than through aggressive selling. While traders reported that some US hedge funds had been selling the pound in recent days, the main explanation for why it languishes at current levels lies in the continued inability of the dollar to rally.

Mr Kit Juckes, currency strategist at NatWest Markets, said that "the weakness of sterling against the D-Mark is in no small part due to the schoolyard games the US authorities are playing over the budget."

The pound will remain vulnerable in the run-up to the budget on November 28, but trade has so far been calm. Indeed, with the dollar having been effectively grid-locked for the past two months, foreign exchange volumes have been fairly low, and sterling's fall needs to be seen against this backdrop of fairly thin trade.



In the jargon of the market, sterling has been the victim not so much of heavy selling, as an absence of buying.

Mr Chris Furness, currency strategist at the financial markets consultancy IDEA in London, said: "It is certainly not panic levels at this stage, but it will be if it breaks down much further."

Long-term investors remain, for the most part on the sidelines. The difference between sterling's current performance and earlier sterling "crises" can be seen in the interest rate markets. A sterling crisis is normally accompanied by market expectations of interest rates rising to defend the pound.

At the moment, however, the short sterling interest rate futures markets is actually pricing in a cut in interest rates, with three month money expected to trade around 6.37 per cent in June next year, compared to the current base rate of 6.75 per cent.

Futures contracts rallied initially on the expectation of a cut in interest rates, but these gains were progressively given back over the day, with sterling's weakness seen as a countervailing factor.

Mr Juckes predicted that if tax cuts were financed through a credible cut in government spending, and the budget was seen to be fiscally neutral, sterling's fall would probably appear exaggerated.

Mr Ian Harnett, UK group chief economist at Societe Generale in London, said: "The chancellor can provide a fiscal relaxation in the budget, or cut interest rates. He is probably not in a position to do both."

He said markets were concerned that an over-stimulation of the economy would cause a deterioration in the trade deficit. "The currency market is telling us that interest rates have to be on hold."

■ The Bank of England provided £862m assistance towards clearing a £900m money market shortage. Three month LIBOR was unchanged at 6 11/16 per cent.

■ OTHER CURRENCIES

Nov 15	£	$
Czech Rp	40.6295 - 40.6711	26.0680 - 26.0980
Hungary	205.686 - 205.866	132.070 - 132.120
Iran	4675.20 - 4672.20	3000.00 - 3000.00
Kuwait	0.4664 - 0.4671	0.2995 - 0.2997
Poland	3.8343 - 3.8399	2.4620 - 2.4640
Russia	7073.58 - 7072.15	4539.00 - 4541.00
U.A.E.	5.7196 - 5.7237	3.6725 - 3.6726

POUND SPOT FORWARD AGAINST THE POUND

Nov 15		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.3746	-0.1931	664 - 828	15.6186	15.3528	15.3442	2.4	15.2856	2.3	-	-	107.3
Belgium	(BFr)	44.9143	-0.5961	687 - 598	45.3310	44.8480	44.8093	2.8	44.6143	2.7	43.8293	2.4	109.9
Denmark	(DKr)	8.4770	-0.1102	715 - 824	8.5358	8.4660	8.4694	1.1	8.4528	1.1	8.3903	1.0	110.3
Finland	(FM)	6.5398	-0.0759	322 - 473	6.5900	6.5270	6.5354	0.8	6.5273	0.8	-	-	88.8
France	(FFr)	7.5457	-0.0874	417 - 497	7.6055	7.5322	7.5423	0.5	7.5546	-0.5	7.5513	-0.1	111.0
Germany	(DM)	2.1847	-0.0276	836 - 858	2.2036	2.1811	2.1799	2.7	2.1702	2.7	2.129	2.5	112.7
Greece	(Dr)	361.854	-3.598	644 - 063	364.198	360.295	-	-	-	-	-	-	66.9
Ireland	(I£)	0.9709	-0.003	699 - 718	0.9739	0.9694	0.9701	1.0	0.9688	0.9	0.9656	0.6	96.7
Italy	(L)	2479.10	-14.07	720 - 100	2498.21	2474.08	2486.35	-3.5	2501.25	-3.6	2569.4	-3.6	69.8
Luxembourg	(LFr)	44.9143	-0.5961	687 - 598	45.3310	44.8480	44.8093	2.8	44.6143	2.7	43.8293	2.4	109.9
Netherlands	(Fl)	2.4463	-0.0334	451 - 475	2.4674	2.4436	2.4406	2.8	2.4294	2.8	2.3837	2.6	110.0
Norway	(NKr)	9.6434	-0.1316	364 - 504	9.7428	9.6356	9.631	1.5	9.6091	1.4	9.5336	1.1	99.2
Portugal	(Es)	229.276	-3.181	125 - 428	231.515	228.308	229.816	-2.8	231.036	-3.1	-	-	95.8
Spain	(Pta)	188.062	-2.347	947 - 177	189.713	187.919	188.562	-3.2	189.502	-3.1	193.902	-3.1	81.7
Sweden	(SKr)	10.3033	-0.1207	941 - 124	10.4088	10.2885	10.3055	-0.3	10.3101	-0.3	10.3334	-0.3	86.1
Switzerland	(SFr)	1.7675	-0.0148	661 - 688	1.7788	1.7622	1.7604	4.8	1.7486	4.3	1.6956	4.1	116.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	82.6
Ecu	-	1.1946	-0.0122	937 - 954	1.2035	1.1925	1.1936	1.0	1.1916	1.0	1.1831	1.0	-
SDR†	-	1.04458	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5577	-0.0061	571 - 582	1.5673	1.5567	-	-	-	-	-	-	-
Brazil	(R$)	1.4991	-0.0067	982 - 000	1.5079	1.4960	-	-	-	-	-	-	-
Canada	(C$)	2.1111	-0.0068	100 - 121	2.1250	2.1082	2.1122	-0.6	2.1142	-0.6	2.118	-0.3	84.3
Mexico	(New Peso)	12.3075	-0.4392	412 - 737	12.5483	12.2319	-	-	-	-	-	-	-
USA	($)	1.5579	-0.0061	574 - 584	1.5675	1.5567	1.5567	0.9	1.5546	0.9	1.5436	0.9	92.8
Pacific/Middle East/Africa													
Australia	(A$)	2.1183	+0.0086	169 - 197	2.1216	2.1052	2.1196	-0.7	2.1225	-0.8	2.1372	-0.9	84.2
Hong Kong	(HK$)	12.0481	-0.049	434 - 527	12.1230	12.0395	12.0446	0.3	12.0321	0.5	11.9985	0.4	-
India	(Rs)	53.8333	-0.2342	770 - 895	54.3040	53.7510	-	-	-	-	-	-	-
Israel	(Shk)	4.6905	-0.0209	851 - 959	4.7153	4.6808	-	-	-	-	-	-	-
Japan	(Y)	157.403	-1.406	297 - 508	158.300	157.080	156.543	6.6	154.746	6.7	147.703	6.2	141.6
Malaysia	(M$)	3.9454	-0.017	433 - 474	3.9771	3.9431	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.4051	-	030 - 072	2.4109	2.3904	2.411	-3.0	2.4203	-2.5	2.4459	-1.7	99.9
Philippines	(Peso)	40.8404	-0.156	883 - 924	41.0520	40.7826	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8429	-0.023	409 - 449	5.8788	5.8396	-	-	-	-	-	-	-
Singapore	(S$)	2.1985	-0.011	970 - 000	2.2092	2.1965	-	-	-	-	-	-	-
South Africa	(R)	5.6697	-0.0255	671 - 723	5.7000	5.6661	-	-	-	-	-	-	-
South Korea	(Won)	1197.32	-6.57	886 - 779	1205.09	1196.48	-	-	-	-	-	-	-
Taiwan	(T$)	42.4388	-0.1865	205 - 570	42.7426	42.4107	-	-	-	-	-	-	-
Thailand	(Bt)	39.1345	-0.2001	063 - 626	39.3720	39.1000	-	-	-	-	-	-	-

† Rates for Nov 14. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 15		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	9.8688	-0.085	667 - 709	9.8875	9.8515	9.8537	1.8	9.8236	1.8	9.7143	1.6	107.0
Belgium	(BFr)	28.8300	-0.27	100 - 500	28.9850	28.7750	28.789	1.7	28.71	1.7	28.41	1.5	109.1
Denmark	(DKr)	5.4413	-0.0492	395 - 430	5.4780	5.4187	5.4421	-0.2	5.4378	0.3	5.4473	-0.1	109.3
Finland	(FM)	4.1978	-0.0322	943 - 013	4.2273	4.1891	4.1974	0.1	4.1963	0.1	4.1918	0.1	87.8
France	(FFr)	4.8435	-0.037	425 - 445	4.8790	4.8330	4.8448	-0.3	4.8472	-0.3	4.8598	-0.3	110.2
Germany	(DM)	1.4024	-0.0121	021 - 026	1.4134	1.3978	1.4004	1.7	1.3962	1.8	1.3806	1.6	111.5
Greece	(Dr)	232.270	-1.395	210 - 330	233.480	230.870	233.895	-8.9	237.195	-8.5	250.67	-7.9	66.3
Ireland	(I£)	1.6047	-0.0012	037 - 057	1.6110	1.6002	1.6049	-0.1	1.605	-0.1	1.6115	-0.4	-
Italy	(L)	1591.31	-2.79	060 - 202	1594.40	1586.75	1598.06	-5.1	1610.11	-4.7	1667.31	-4.8	69.7
Luxembourg	(LFr)	28.8300	-0.27	100 - 500	28.9850	28.7750	28.789	1.7	28.71	1.7	28.41	1.5	109.1
Netherlands	(Fl)	1.5703	-0.0152	700 - 705	1.5788	1.5653	1.5676	2.0	1.5626	2.0	1.5428	1.8	109.0
Norway	(NKr)	6.1900	-0.06	875 - 925	6.2375	6.1725	6.1863	0.7	6.18	0.6	6.17	0.3	98.1
Portugal	(Es)	147.170	-1.46	120 - 220	148.550	146.510	147.635	-3.8	148.645	-4.0	153.27	-4.1	95.5
Spain	(Pta)	120.715	-1.03	680 - 750	121.580	120.590	121.095	-3.8	121.865	-3.8	125.36	-3.8	81.2
Sweden	(SKr)	6.6136	-0.0514	098 - 173	6.6658	6.6042	6.6311	-3.2	6.6676	-3.3	6.8361	-3.4	85.1
Switzerland	(SFr)	1.1345	-0.0051	340 - 350	1.1415	1.1290	1.1309	3.8	1.1248	3.4	1.097	3.3	115.9
UK	(£)	1.5579	-0.0061	574 - 584	1.5675	1.5567	1.5567	0.9	1.5546	0.9	1.5436	0.9	82.5
Ecu	-	1.3042	+0.0082	037 - 047	1.3075	1.3000	1.3046	-0.4	1.3053	-0.3	1.3076	-0.3	-
SDR†	-	0.66973	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	1.0000	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	0.9623	-0.0005	620 - 625	0.9630	0.9620	-	-	-	-	-	-	-
Canada	(C$)	1.3551	+0.0009	548 - 553	1.3590	1.3527	1.3567	-1.5	1.3598	-1.4	1.3721	-1.3	83.3
Mexico	(New Peso)	7.9000	-0.25	600 - 400	7.9500	7.8500	7.9023	-0.3	7.9055	-0.3	7.9103	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	94.1
Pacific/Middle East/Africa													
Australia	(A$)	1.3596	+0.0108	593 - 602	1.3613	1.3535	1.3614	-1.6	1.365	-1.6	1.3847	-1.8	85.8
Hong Kong	(HK$)	7.7335	-0.0012	330 - 340	7.7340	7.7328	7.7351	-0.2	7.737	-0.2	7.7572	-0.3	-
India	(Rs)	34.5550	-0.015	300 - 800	34.7000	34.5000	34.705	-5.2	35.01	-5.3	36.48	-5.6	-
Israel	(Shk)	3.0108	-0.0016	083 - 133	3.0136	3.0016	-	-	-	-	-	-	-
Japan	(Y)	101.035	-0.505	000 - 070	101.590	100.700	100.54	5.9	99.62	5.6	95.745	5.2	141.7
Malaysia	(M$)	2.5325	-0.001	320 - 330	2.5372	2.5315	2.5325	0.0	2.5329	-0.1	2.5405	-0.3	-
New Zealand	(NZ$)	1.5437	+0.0059	430 - 446	1.5464	1.5361	1.5478	-3.2	1.5553	-3.0	1.58	-2.4	-
Philippines	(Peso)	26.2150	+0.0025	900 - 400	26.2400	26.1900	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-0.0001	504 - 506	3.7506	3.7504	3.7511	-0.2	3.7519	-0.1	3.7551	-0.1	-
Singapore	(S$)	1.4112	-0.0015	107 - 117	1.4120	1.4084	1.4078	2.9	1.4015	2.8	1.3767	2.4	-
South Africa	(R)	3.6393	-0.0022	388 - 398	3.6400	3.6355	3.6646	-8.3	3.7146	-8.3	3.9458	-8.4	-
South Korea	(Won)	768.550	-1.2	500 - 600	769.400	768.400	771.55	-4.7	775.05	-3.4	793.55	-3.3	-
Taiwan	(T$)	27.2410	-0.013	380 - 440	27.2720	27.2370	27.261	-0.9	27.301	-0.9	-	-	-
Thailand	(Bt)	25.1200	-0.03	100 - 300	25.1500	25.1050	25.2075	-4.2	24.855	4.2	26.075	-3.8	-

† SDR rate per $ for Nov 14. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 14: Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

November 15	Over night	One month	Three mths	Six mths	One year	Lomb inter.	Dis. rate	Repo rate
Belgium	3 13/16	3 13/16	3 13/16	4	4 1/8	8.00	3.50	-
week ago	4	3 13/16	4 1/16	4 1/16	4 1/8	8.00	3.50	-
France	5 13/16	5 3/4	5 13/16	5 13/16	5 3/4	5.00	-	6.60
week ago	6 1/8	5 7/8	6 1/16	5 15/16	5 7/8	5.00	-	7.00
Germany	3 13/16	3 13/16	3 7/8	3 13/16	3 13/16	5.50	3.50	3.98
week ago	4	3 15/16	3 13/16	3 13/16	3 13/16	5.50	3.50	4.02
Ireland	5 1/4	5 5/8	5 13/16	5 13/16	6 1/4	-	-	6.25
week ago	5 1/4	5 5/8	5 5/8	5 13/16	6 1/4	-	-	6.25
Italy	10 1/4	10 1/4	10 1/4	10 1/4	10 3/8	-	9.00	10.60
week ago	10 1/4	10 1/4	10 1/4	10 1/4	10 3/8	-	9.00	10.77
Netherlands	3 3/4	3 3/4	3 13/16	3 7/8	3 7/8	-	3.50	3.70
week ago	3 3/4	3 7/8	3 7/8	3 15/16	3 13/16	-	3.50	3.70
Switzerland	1 3/4	2	1 13/16	1 7/8	1 7/8	5.00	2.00	-
week ago	2 3/4	2	2 1/8	2 1/8	2 1/8	5.00	2.00	-
US	5 3/4	5 13/16	5 3/4	5 5/8	5 1/2	-	5.25	-
week ago	5 5/8	5 13/16	5 3/4	5 5/8	5 15/32	-	5.25	-
Japan	1/4	1/2	1/2	1/2	1/2	-	0.50	-
week ago	1/2	1/2	1/4	1/2	3/4	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5 13/16	5 7/8	5 3/4	5 11/16	-	-	-
week ago	-	5 13/16	5 7/8	5 3/4	5 11/16	-	-	-
US Dollar CDs	-	5.62	5.50	5.46	5.42	-	-	-
week ago	-	5.62	5.51	5.48	5.46	-	-	-
ECU Linked Ds	-	5 1/2	5 1/4	5 1/4	5 1/4	-	-	-
week ago	-	5 1/2	5 3/4	5 5/8	5 5/8	-	-	-
SDR Linked Ds	-	3 7/8	3 7/8	3 13/16	3 13/16	-	-	-
week ago	-	3 7/8	3 7/8	3 13/16	3 3/4	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 15	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4 1/16 - 3 15/16	4 1/16 - 3 15/16	4 1/8 - 4	4 1/8 - 4	4 1/16 - 3 15/16	4 3/16 - 4 1/16
Danish Krone	5 3/8 - 5 1/4	5 3/8 - 5 1/8	5 7/16 - 5 1/4	5 1/2 - 5 3/8	5 5/8 - 5 1/2	5 5/8 - 5 3/8
D-Mark	4 - 3 1/2	3 13/16 - 3 11/16	3 7/8 - 3 3/4	3 13/16 - 3 11/16	3 7/8 - 3 3/4	3 7/8 - 3 3/4
Dutch Guilder	3 7/8 - 3 3/4	3 7/8 - 3 3/4	3 13/16 - 3 13/16	3 13/16 - 3 3/4	3 13/16 - 3 3/4	3 15/16 - 3 13/16
French Franc	5 7/8 - 5 3/4	6 - 5 3/4	5 15/16 - 5 13/16	6 1/16 - 5 15/16	6 1/16 - 5 15/16	5 7/8 - 5 3/4
Portuguese Esc.	8 13/16 - 8 11/16	8 7/8 - 8 3/4	8 13/16 - 8 3/4	9 1/16 - 8 15/16	9 1/8 - 9	9 3/16 - 9 1/16
Spanish Peseta	9 1/16 - 9 1/16	9 7/16 - 9 5/16	9 7/16 - 9 5/16	9 7/16 - 9 3/8	9 15/32 - 9 13/32	9 5/8 - 9 17/32
Sterling	6 7/8 - 6 3/4	6 13/16 - 6 3/4	6 3/4 - 6 11/16	6 13/16 - 6 25/32	6 27/32 - 6 23/32	6 27/32 - 6 23/32
Swiss Franc	1 7/8 - 1 5/8	1 7/8 - 1 3/4	2 - 1 7/8	2 - 1 7/8	1 15/16 - 1 13/16	1 7/8 - 1 3/4
Can. Dollar	6 1/8 - 5 13/16	6 1/8 - 5 13/16	6 1/16 - 5 13/16	6 1/8 - 6	6 3/16 - 6 1/16	6 3/16 - 6 1/16
US Dollar	5 7/8 - 5 5/8	5 13/16 - 5 11/16	5 13/16 - 5 5/8	5 7/8 - 5 5/8	5 3/4 - 5 5/8	5 21/32 - 5 17/32
Italian Lira	10 7/16 - 10 3/16	10 7/16 - 10 3/16	10 1/2 - 10 3/8	10 5/8 - 10 1/2	10 11/16 - 10 9/16	10 3/4 - 10 5/8
Yen	1/2 - 7/16	15/32 - 5/16	7/16 - 5/16	15/32 - 3/8	15/32 - 1/4	15/32 - 1/4
Asian $Sing	1 3/4 - 1 5/8	2 - 1 7/8	2 1/4 - 2 1/8	2 1/2 - 2 3/8	2 5/8 - 2 1/2	3 - 2 7/8

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.96	94.16	+0.09	94.19	93.90	52,416	43,255
Mar	94.36	94.49	+0.05	94.51	94.35	8,506	36,234
Jun	94.61	94.66	+0.05	94.67	94.60	4,328	33,734

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.07	96.09	+0.02	96.10	96.07	14382	124808
Mar	96.27	96.30	+0.03	96.32	96.27	17197	162686
Jun	96.28	96.30	+0.03	96.31	96.26	13800	127203
Sep	96.15	96.20	+0.04	96.21	96.15	11128	98794

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	89.35	89.46	+0.01	89.49	89.35	6942	25329
Mar	89.70	89.76	+0.01	89.79	89.70	2251	26821
Jun	89.84	89.95	+0.03	89.95	89.81	383	15440
Sep	90.03	90.03	+0.03	90.05	89.99	531	6182

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.07	98.07	-	98.09	98.04	4225	21715
Mar	98.30	98.26	-0.01	98.31	98.26	4221	23091
Jun	98.29	98.26	-0.01	98.30	98.27	1191	9096
Sep	98.21	98.18	-0.02	98.23	98.18	271	4436

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.42	94.49	+0.07	94.49	94.42	1175	6092
Mar	94.61	94.68	+0.07	94.68	94.61	586	5114
Jun	94.67	94.70	+0.07	94.70	94.66	35	3186
Sep	94.52	94.59	+0.07	94.60	94.52	233	2148

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
8925	0.37	0.83	1.06	0.16	0.32	0.36
8950	0.23	0.67	0.89	0.27	0.41	0.44
8975	0.13	0.52	0.74	0.42	0.51	0.54

Est. vol. total, Calls 150 Puts 50. Previous day's open int., Calls 14878 Puts 7898

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 15		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.88	16.80	4.865	2.162	5520	5.446	21.47	510.6	418.8	22.93	3.937	2.227	4.701	3.469	350.5	2.661
Denmark	(DKr)	52.98	10	8.902	2.578	1.145	2924	2.885	11.38	270.5	221.9	12.15	2.086	1.180	2.490	1.838	185.7	1.410
France	(FFr)	59.51	11.23	10	2.896	1.287	3285	3.241	12.78	303.9	249.3	13.65	2.343	1.325	2.798	2.065	208.6	1.584
Germany	(DM)	20.55	3.880	3.454	1	0.444	1135	1.119	4.413	104.9	86.09	4.714	0.809	0.458	0.966	0.713	72.04	0.547
Ireland	(I£)	46.25	8.730	7.771	2.250	1	2553	2.519	9.931	236.1	193.7	10.61	1.821	1.030	2.174	1.605	162.1	1.231
Italy	(L)	1.812	0.342	0.304	0.088	0.039	100.	0.099	0.389	9.250	7.588	0.415	0.071	0.040	0.085	0.063	6.349	0.048
Netherlands	(Fl)	18.36	3.468	3.085	0.893	0.397	1013	1.	3.942	93.74	76.90	4.211	0.723	0.409	0.863	0.637	64.35	0.489
Norway	(NKr)	46.57	8.791	7.825	2.266	1.007	2571	2.537	10	237.8	195.1	10.68	1.833	1.037	2.189	1.616	163.2	1.239
Portugal	(Es)	19.58	3.697	3.291	0.953	0.423	1081	1.067	4.205	100.	82.03	4.492	0.771	0.436	0.921	0.679	68.64	0.521
Spain	(Pta)	23.88	4.507	4.012	1.162	0.516	1318	1.300	5.127	121.9	100.	5.476	0.940	0.532	1.122	0.828	83.68	0.635
Sweden	(SKr)	43.60	8.230	7.326	2.121	0.943	2407	2.375	9.362	222.6	182.6	10	1.717	0.971	2.050	1.513	152.8	1.160
Switzerland	(SFr)	25.40	4.795	4.268	1.236	0.549	1402	1.383	5.454	129.7	106.4	5.826	1	0.566	1.194	0.881	89.03	0.676
UK	(£)	44.91	8.477	7.546	2.185	0.971	2479	2.446	9.643	229.3	188.1	10.30	1.768	1	2.111	1.558	157.4	1.195
Canada	(C$)	21.27	4.016	3.575	1.035	0.460	1174	1.159	4.568	108.6	89.10	4.879	0.838	0.474	1	0.738	74.56	0.566
US	($)	28.83	5.441	4.843	1.402	0.623	1591	1.570	6.189	147.2	120.7	6.611	1.135	0.642	1.355	1	101.0	0.767
Japan	(Y)	28.53	5.386	4.794	1.388	0.617	1575	1.554	6.126	145.7	119.5	6.544	1.123	0.635	1.341	0.990	100.	0.759
Ecu		37.58	7.094	6.315	1.828	0.813	2074	2.047	8.069	191.9	157.4	8.619	1.479	0.837	1.767	1.304	131.7	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7066	0.7140	+0.0055	0.7165	0.7084	16,475	51,802
Mar	0.7177	0.7167	+0.0050	0.7186	0.7160	135	3,953
Jun	-	0.7210	-	0.7210	-	415	539

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8785	0.8846	+0.0055	0.8880	0.8785	12,112	34,698
Mar	0.8940	0.8926	+0.0054	0.8955	0.8908	73	2,164
Jun	0.8997	0.8997	+0.0046	0.9035	0.8997	1	486

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.9892	0.9954	+0.0073	0.9980	0.9882	15,077	61,492
Mar	1.0060	1.0095	+0.0076	1.0095	1.0060	487	9,108
Jun	1.0225	1.0225	+0.0077	1.0225	1.0225	1	383

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5588	1.5576	+0.0006	1.5650	1.5550	10,242	42,038
Mar	1.5540	1.5536	+0.0016	1.5560	1.5520	35	338
Jun	-	1.5512	+0.0010	1.5512	1.5490	2	10

UK INTEREST RATES

LONDON MONEY RATES

Nov 15	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 1/4 - 6 1/2	6 7/8 - 6 5/8	6 3/4 - 6 5/8	6 3/4 - 6 5/8	6 11/16 - 6 9/16	6 5/8 - 6 9/16
Sterling CDs	-	-	6 21/32 - 6 21/32	6 5/8 - 6 9/16	6 9/16 - 6 1/2	6 1/2 - 6 7/16
Treasury Bills	-	-	6 5/8 - 6 9/16	6 17/32 - 6 15/32	-	-
Bank Bills	-	-	6 21/32 - 6 19/32	6 17/32 - 6 15/32	6 7/16 - 6 3/8	-
Local authority deps	6 13/16 - 6 11/16	6 3/4 - 6 5/8	6 3/4 - 6 5/8	6 3/4 - 6 5/8	6 11/16 - 6 9/16	6 5/8 - 6 1/2
Discount Market deps	7 - 6 3/4	6 13/16 - 6 11/16	-	-	-	-

UK clearing bank base lending rate 6 3/4 per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep (£100,000)	3	5 1/4	5 3/4	6	6 1/4

Certs of Tax dep. under £100,000 is 2 1/2pc. Deposits withdrawn for cash 1 1/4pc.
Ave. tender rate of discount 6.4647pc. ECGD fixed rate Stg. Export Finance. Make up day Oct 31, 1995. Agreed rate for period Nov 26, 1995 to Dec 25, 1995, Schemes II & III 8.07pc. Reference rate for period Sep 30, 1995 to Oct 31, 1995, Schemes IV & V 6.811pc. Finance House Base Rate 7pc from November 1, 1995

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.37	93.36	-0.01	93.42	93.35	16281	80656
Mar	93.60	93.59	-0.01	93.66	93.57	36998	83715
Jun	93.60	93.63	+0.02	93.69	93.59	17486	48739
Sep	93.50	93.53	+0.03	93.60	93.48	10156	41982
Dec	93.30	93.34	+0.03	93.42	93.30	3384	28296

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9325	0.16	0.45	0.60	0.05	0.11	0.22
9350	0.05	0.28	0.44	0.19	0.19	0.31
9375	0.01	0.16	0.31	0.40	0.32	0.43

Est. vol. total, Calls 8351 Puts 3480. Previous day's open int., Calls 154404 Puts 144937

EMS EUROPEAN CURRENCY UNIT RATES

Nov 15	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.15214	2.09526	-0.0051	-2.64	7.87	20
Belgium	39.3960	38.4533	-0.0974	-2.39	7.40	17
Germany	1.91007	1.87038	-0.00501	-2.08	7.05	21
Austria	13.4383	13.1632	-0.0338	-2.05	7.02	15
Spain	162.493	161.136	-0.244	-0.84	5.71	6
Denmark	7.28580	7.25785	-0.0108	-0.38	5.23	3
Portugal	195.792	196.468	-0.548	0.35	4.47	-2
France	6.40608	6.46891	+0.00393	0.98	3.81	-8
Ireland	0.792214	0.830457	+0.004686	4.83	0.00	-33
NON ERM MEMBERS						
Greece	292.867	309.854	-0.071	5.80	-0.92	-
Italy	2106.15	2123.79	+15.55	0.84	3.96	-
UK	0.786652	0.854724	+0.006484	8.65	-3.52	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	Jan	Feb	PUTS Dec	Jan	Feb
1.540	2.40	2.91	3.58	0.72	1.34	2.11
1.550	1.77	2.38	3.03	1.09	1.76	2.51
1.560	1.25	1.87	2.54	1.58	2.26	3.02
1.570	0.85	1.45	2.16	2.17	2.78	3.58
1.580	0.88	1.10	1.78	2.51	3.42	4.19
1.590	0.55	0.81	1.45	2.82	4.13	5.55

Previous day's vol., Calls 5,657 Puts 6,715 . Prev. day's open int., Calls 229,877 Puts 268,636

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.29	94.29	+0.01	94.32	94.28	46,606	352,352
Mar	94.65	94.64	-	94.69	94.64	65,797	410,051
Jun	94.70	94.68	-	94.73	94.67	70,900	303,333

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.76	94.75	+0.01	94.78	94.74	524	9,281
Mar	95.09	95.06	+0.01	95.10	95.06	747	6,871
Jun	95.15	95.11	-	95.15	95.11	92	551

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Dec	Jan	Feb	Mar	PUTS Dec	Jan	Feb	Mar
9600	0.13	0.34	0.35	0.37	0.04	0.04	0.05	0.07
9625	0.03	0.15	0.18	0.19	0.19	0.10	0.13	0.14
9650	0.01	0.05	0.07	0.08	0.42	0.25	0.27	0.28

Est. vol. total, Calls 6376 Puts 9088. Previous day's open int., Calls 251690 Puts 244361

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9800	0.10	0.37	0.45	0.03	0.09	0.17
9825	0.02	0.19	0.26	0.20	0.16	0.23
9850	0.01	0.09	0.13	0.44	0.31	0.35

Est. vol. total, Calls 171 Puts 181. Previous day's open int., Calls 6897 Puts 2475

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	10
Allied Trust Bank	6.75	Exeter Bank Limited	7.75	Royal Bk of Scotland	6.75
AIB Bank	6.75	Financial & Gen Bank	7.50	●Singer & Friedlander	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	●Smith & Williamson Secs.	6.75
Bank of Baroda	6.75	Girobank	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	United Bank of Kuwait	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	Unity Trust Bank Plc	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Western Trust	6.75
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Whiteaway Laidlaw	6.75
Bank of Scotland	6.75	●Hill Samuel	6.75	Yorkshire Bank	6.75
Barclays Bank	6.75	C. Hoare & Co	6.75		
Brit Bk of Mid East	6.75	Hongkong & Shanghai	6.75	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75	* In administration	
Citibank NA	6.75	●Leopold Joseph & Sons	6.75		
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Meghraj Bank Ltd	6.75		
Coutts & Co	6.75	Midland Bank	6.75		
Credit Lyonnais	6.75	* Mount Banking	6.75		
Cyprus Popular Bank	6.75	NatWestminster	6.75		
		●Rea Brothers	6.75		

LONDON SHARE SERVICE

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

Notes	Price	+ or -	1995 high	low	Yld Gr's	NAV	Dis or Pm(-)
Fulcrum Inc ♣v	38	–	46	38	–	–	–
Cap	19	–	24	17½	–	43.0	55.8
Zero Div Pf	180¼	–	181	141	–	–	–
Gartmore Brit Inc ♣†s	86½xd	–	98	87	11.1	94.9	8.9
Zero Div Pref	194	–	134	100	–	–	–
Units	2105xd	–	218	188	4.2	224.5	3.8
Gartmore Scot Inc ♣v	62xd	–	72	61	21.2	–	–
Cap	116	–	114	80	–	275.2	80.0
Zero Div Pf	189¼	–	190	160½	–	–	–
Units	1575xd	–	1575	1575	4.6	–	–
Gartmore Shared Eq ♣v□	93	–	101	84	12.9	84.2	–10.5
Senior Zero Pf	119½	–	128	95	–	–	–
Junior Zero Pf	117½	–½	120	94	–	–	–
Gen Cons Inc v□	108	–	113	104	11.1	–	–
Cap	172	–2	183	138	–	241.1	28.7
Stepped Pf	186	–	185	170	2.3	–	–
Gill Inc & Grth Spl Inc ♣□	109	–1	115	95	3.4	109.2	0.2
Zero Div Pf	118¼	–	118	102	–	–	–
Henderson Eurotrust ♣v	90	–	104	80	4.7	128.9	30.7
Units v	132	+1	143	115	2.8	159.1	17.0
Zero Pf	43	–	43	35	–	–	–
Hong Kong	38xd	–	48	33	8.1	46.4	18.1
Warrants	23¼	–	34	22	–	–	–
Zero Div Pf	40¼	–	40¼	37	–	–	–
IS Optimum ♣†v	97½	–	98	78	10.8	107.1	9.0
Zero Div Pf	238	–	240	217½	–	–	–
INVESCO Blue Chip ♣v	64	–	72	51	10.4	67.1	4.6
Zero Pf	182½	–	182½	160½	–	–	–
INVESCO Recovery ♣	88	–	110	84	11.4	100.1	12.1
Pld Growth	165	–	166	147½	–	–	–
Johnson Fry Euro ♣sv	83	–	94	61	8.7	100.6	17.5
Zero Pf	128½	–	128½	103	–	–	–
Johnson Fry Second ♣†s	93	–	99	82	8.9	90.8	–5.7
Zero Div Pf	118	–	119½	98¼	–	–	–
Johnson Fry Utils ♣†v	103	–	111	89	9.5	101.5	–1.5
Zero Pf	128	–½	128½	108½	–	–	–
Jos Hldgs Capital ♣v	113	+1	113	95	–	247.6	54.4
Income v	95	–	103	91	17.8	–	–
Zero Div Pf	147½	–	147½	120	–	–	–
Jove Inc ♣†sv	59xd	–	65	59	12.9	–	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

□ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
• Highs and lows marked thus have been adjusted to allow for capital changes
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
Φ Figures or report awaited
♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
♣ Free annual/interim report available, see details below.
✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
# Price at time of suspension
¶ Indicated dividend yield after pending scrip and/or rights issue.
♦ Merger bid or reorganisation in progress
§ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

Prices for dealing November 15

Jupiter Tyndall (Bermuda) Ltd

PO Box HM1258, Hamilton, Bermuda 001 809 292 2760

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

[illegible]

Sarasin Funds Mngmt (Guernsey) Ltd

PO Box 245, St Peter Port, Guernsey 01481 723021

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd

[illegible]

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Emerging Mkts Liquidity Portfolio	$14.27	14.65	—	-

Apollo Investment Management Ltd

[illegible]

Arab Bank Fund Managers (Guernsey) Ltd

[illegible]

Bachmann Global Investment Fund Ltd

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

GT Asset Management (Ireland) Ltd

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

هكذا من الأصل

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

LONDON STOCK EXCHANGE

MARKET REPORT

FT-SE 100 breaks out of its recent trading range

By Steve Thompson,
UK Stock Market Editor

A spate of weak economic news, which appeared to increase the chances of an interest rate cut, plus another burst of takeover speculation, drove UK share prices sharply higher yesterday.

Such was the *momentum behind* the equity market that the FT-SE 100 index broke out of its recent short-term trading range, closing a net 23.5 higher at 3,571.4, its best closing level since October 20 and only 21.6 below its all-time closing peak, 3,593.0, reached on October 18. The Footsie's all-time intra-day high was 3,598.0, set on the same day.

The FT-SE Mid 250 index lagged behind, but still managed a 16.9 gain at 3,922.2. The Mid 250 also finished at its highest level since October 20.

The bid speculation that caused ripples of excitement around the City's trading desks was centred on the drugs sector and specifically on *Zeneca, one of the market's long* standing takeover favourites. A number of potential bidders were being put forward, including Roche, of Switzerland, and Ivax, the US group which called off merger discussions with Hafslund Nycomed, of Norway, yesterday.

Marketmakers said last night that they expected the equity market to run on further *this morning, as* some of the fund managers that have recently stood back from the market may decide to top up their weightings before prices run away from them.

"It looks as if some funds might be panicked in, and persuaded to buy on the blue," said one trader. *He said after-hours' trading in the* FT-SE 100 future indicated a strong opening this morning, given a half-decent performance by Wall Street.

The market's strong performance was all the more impressive given that international bonds eventually closed barely in positive territory, having been sharply higher earlier in the session. And there was pre*cious little support for equities from* Wall Street. The Dow Jones Industrial Average gave ground at the opening of trading in the US, before clawing its way back to show a near 10-point rise 90 minutes after London closed for business.

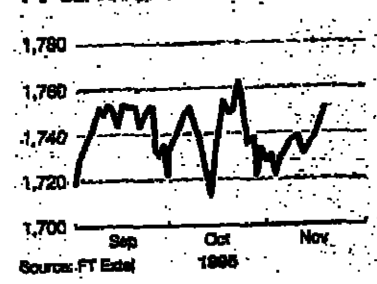
Share prices were marked down at the outset, as dealers took *account of Wall Street's rather* soggy showing overnight, and slipped further during initial exchanges, after a mixed bag of corporate news items which included profits warnings from BICC, the cables to housebuilding group, and George Wimpey, but the latter news was tempered by a substantial assets switch with Tarmac, *another big building group.*

The day's economic news, on average earnings, unit wage costs, unemployment and retail sales, all suggested slowing inflationary pressures, as did news from the US on consumer prices, industrial production and capacity utilisation.

After the UK data, stock prices began to pick up, eventually finishing less than one Footsie point below the day's best. Talk in the market suggested that the October public sector borrowing require*ment could come in at some £2.6bn,* well below forecasts.

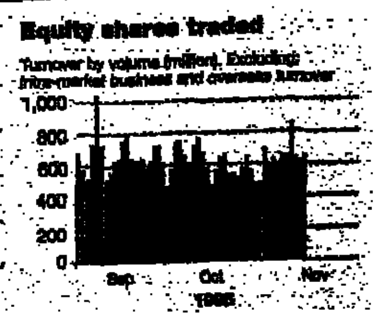
Turnover at 6pm was 688m shares, while retail business on Tuesday was worth £1.62bn.

FT-SE-A All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3571.4	+23.5	FT Ordinary Index	2611.0	+6.8
FT-SE Mid 250	3922.2	+16.9	FT-SE-A Non Fins p/e	16.56	(16.58)
FT-SE-A 350	1775.1	+10.8	FT-SE100 Fut Dec	3590.0	+36.0
FT-SE-A All-Share	1751.46	+9.91	10 yr Gilt yield	7.80	(7.81)
FT-SE-A All-Share yield	3.85	(3.87)	Long gilt/equity yld ratio:	2.10	(2.10)

Best performing sectors

1 Pharmaceuticals .... +2.1
2 Bldg. Matl. & Merchs. .... +1.8
3 Tobacco .... +1.6
4 Retailers, Food .... +1.5
5 Retailers, General .... +1.5

Worst performing sectors

1 Gas Distribution .... -1.6
2 Paper, Pckg. & Print. .... -0.6
3 Engineering, Vehicles .... -0.5
4 Oil Exploration & Prod .... -0.4
5 Diversified Inds. .... -0.4

Zeneca hits new peak

Zeneca, the pharmaceuticals group, moved into new high territory with a rise of almost 4 per cent as takeover speculation gathered pace.

Yesterday's jump of 46½ to 1290½p on turnover of 1.5m shares included a period of *backwardation, the situation* where prices are moving so fast that bid prices are briefly higher than offer prices on trading screens. At the time, NatWest Securities was the house bidding for stock.

Analysts were unable to pinpoint any new speculation to add to the theory that groups such as Bristol Myers Squibb, Johnson & Johnson or even Ciba Geigy could make an offer of up to £15 a share for Zeneca.

Mr Ian White of Robert Fleming Securities said there was a strong likelihood of a bid, merger or acquisition in the medium term. There was some *perception that Zeneca could* benefit from the collapse of merger talks between Hafslund Nycomed, of Norway, and Ivax, the US generics group.

But other analysts said the sharp rise in the share price yesterday indicated only that someone believed a hostile bidder was poised to strike. Zeneca refused to comment.

The company is holding a research and development meeting on December 12.

Shares in Shell Transport leapt 12½ to 758p as the company included some very precise targets in its London presentation to analysts and institutions.

Shell said it could tolerate a 70 per cent payout ratio on its dividend and expected to make $9bn net income, on the basis of a $15 oil price, a $2 refining margin and a 10 per cent return on chemicals.

Although no dates were mentioned, Hoare Govett argued that Shell is looking to score those goals in three years. The broker said many analysts had expected Shell to concentrate on raising dividend cover *rather than lowering it.*

British Gas declined 4 to 241½p in spite of revealing third-quarter earnings that met analysts' forecasts.

SGST commented: "The results are just history. The shares are down because of continuing uncertainty over gas contracts, the Transco pipeline price formula and how much market share Gas is likely to lose in the domestic reshuffle next year."

Signs emerged yesterday that the City's top engineering teams are taking sides on Rolls-Royce.

NatWest Securities, Merrill *Lynch and Henderson Cros*thwaite are all buyers on the back of Rolls-Royce's record breaking £1.2bn aero engines contract. But BZW has reiterated its sell stance and advised clients to take advantage of the recent share price strength.

BZW applauded the aero engines deal but is concerned about R-R's power division and costs and financing pressures generally. It sees the group's rate of recovery as slow and *still exposed to adverse shocks.*

The stock, which topped the Footsie performance charts on Tuesday with a 7 per cent rise, was the index backmarker yesterday, giving up 4 to 168½p in 8.8m traded.

In contrast, Smith Industries, which also benefits from the Rolls-Royce order, added a further 5 at 599p. Systems engineer Cobham rose 10 more to 442p as analysts upgraded earnings estimates.

Both NatWest and BZW have stepped up Cobham earnings per share estimates following the Westwind Air Bearing deal. The shares have risen 10 per cent in two days.

Plans for an assets swap between Tarmac and George Wimpey sent both shares racing to the top of the FT-SE Mid 250 rankings. The two have mostly been side-steppped by the recent revival for building-related stocks. Yesterday they jumped a combined 24 per cent.

Analysts reacted positively, marking down the deal as a sensible solution to the companies' problems with their respective divisions. Some felt that Wimpey had got the better of the transaction; most saw the move as potential precursor to further, much needed corporate activity within the sector.

Tarmac moved up 9 to 92½p and Wimpey rose 15 to 127p, and the excitement washed over into other building stocks. BPB Industries gained 12 to 310p, Caradon put on 7 at 196p and Redland added 11 at 348p. Wolseley advanced 9 to a new 1995 high of 442p.

Commercial Union relieved worried insurance analysts with a set of results that suggested the sector had saved the best for last. The insurer's third-quarter figures were in line with forecasts and the company presentation impressed analysts. Also, the perception that the stock is the safe haven within the sector saw the shares rise 16 to 614p.

Royal Insurance was flat at 367p, with a post-results sell note from Merrill Lynch impacting on the share price. The broker prefers BAT Industries, which it sees as having the same difficult outlook as the other insurers but support from the tobacco side. BAT climbed 9 to 543p.

A severe profits warning from BICC cast a pall over the copper cables sector.

NatWest Securities moved from "add" to "hold" on BICC and cut its profits estimate for this year by £25m to £110m, *excluding the group's £80m of* reorganisation charges. The broker also trimmed at Delta, slicing profits hopes by some 8 per cent for this year. BICC *closed 9 lower at 253p and* Delta came off 3 to 412p.

Data communications and software group Cray Electronics, which stood at 170p earlier this year, rebounded on the back of vague takeover talk. The shares jumped 8 to 54p in 4.4m traded.

Leading food retailing stocks were boosted by a note from Credit Lyonnais Laing. The broker pointed out that the sector had fallen from its relative peak *in early September* and added that valuations look very reasonable and yields are once again more enticing.

CLL recommended ASDA Group as its favourite buy among the leaders and the shares responded by moving 8¾ ahead to 102½p, making it the day's best performing stock in the Footsie, following healthy trade of 19m.

In the rest of the sector, Argyll Group rose 7¼ to 315¼p *and Tesco 7 to 295p.*

Rank Organisation slipped 6 to 394p after NatWest Securities advised investors to "reduce" holdings.

Pentex Oil jumped 20 to 140p on the agreed 156p a share offer from Melrose Energy.

Shares in Unigate hardened 7 to 432p as analysts speculated about the company's next acquisition, after it announced plans to sell its 29 per cent stake in Dutch foods group Nutricia. The stake is valued at around £329m.

Early market talk centred on Hazlewood Foods and an advance in the group's shares ran out of steam after analysts discounted the prospect of such a merger. The shares eventually closed just 3 ahead at 111p.

Vodafone, down 6 per cent in three days, rebounded 4 to 255½p in 10m traded following a denial from the UK mobile phones leader that it planned a rights issue.

Cable and Wireless ended 2 easier at 423p ahead of today's interim results.

MARKET REPORTERS:
Peter John,
Joel Kibazo,
Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Nov 15	Nov 14	Nov 13	Nov 10	Nov 9	Yr ago	*High	*Low
Ordinary Share	2611.0	2604.2	2598.3	2576.3	2591.0	2418.6	2666.5	2238.3
Ord. div. yield	4.12	4.11	4.13	4.15	4.10	4.28	4.73	4.02
P/E ratio net	15.68	15.69	15.62	15.56	15.62	18.64	21.33	15.35
P/E ratio nil	15.52	15.50	15.43	15.37	15.44	18.18	22.21	15.17

*For 1995. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2599.5	2595.9	2598.6	2606.0	2607.4	2606.2	2605.7	2608.3	2610.1	2611.1	2594.2

	Nov 15	Nov 14	Nov 13	Nov 10	Nov 9	Yr ago
SEAQ bargains	27,462	28,425	29,572	27,258	29,481	31,156
Equity turnover (£m)†	-	1625.3	1149.1	1378.9	1677.9	1586.7
Equity bargains†	-	35,125	35,036	33,609	35,745	35,243
Shares traded (mil)†	-	667.4	603.7	612.5	682.0	689.3

†Excluding intra-market business and overseas turnover.

■ London market data

Rises and falls*		1995 Highs and lows		LIFFE Equity options	
Total Rises	692	Total Highs	122	Total contracts	32,740
Total Falls	479	Total Lows	50	Calls	18,051
Same	1,706			Puts	14,689

Nov. 15 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3550.0	3590.0	+36.0	3598.0	3545.0	10271	64174
Mar	3571.5	3614.0	+36.5	3615.0	3571.5	107	6347
Jun		3620.0	+36.0			0	134

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		3930.0	+20.0			0	3318
Mar		3973.0	+20.0			0	300

■ FT-SE 100 INDEX OPTION (LIFFE) (*3570) £10 per full index point

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

Calls 1,778 Puts 1,273 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995 High	1995 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	32.2	93	92	Abtrust Asian Smlr	92		-	-	-	-
-	F.P.	2.27	33	32	Do Warrants	32½		-	-	-	-
-	F.P.	12.3	22	17	†Alpha Omikron	22		-	-	-	-
-	F.P.	2.13	10	9	†Arion Props	9		v-	-	-	-
306	F.P.	46.8	300	285	BZW Eq Tesco Wt	300	+7	v-	-	-	-
100	F.P.	8.32	96	95	Baronsmead VCT	96	+1	v-	-	-	-
-	F.P.	60.6	102	101	Benfield & Rea	101		-	-	-	-
-	F.P.	5.40	62	50	†Chartwell Intl	60		v-	-	-	-
-	F.P.	43.6	139	102	†Creos Intl	122	-2	-	-	-	-
60	F.P.	3.79	71	65	†David Glass	70		R2.88	2.4	5.1	10.0

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

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FT - SE Actuaries Share Indices — The UK Series

	Nov 15
FT-SE 100	3571.4
FT-SE Mid 250	3922.2
FT-SE Mid 250 ex Inv Trusts	3945.9
FT-SE-A 350	1775.1
FT-SE-A 350 Higher Yield	1766.0
FT-SE-A 350 Lower Yield	1789.1
FT-SE SmallCap	1936.94

■ FT-SE Actuaries All-Share

■ Hourly movements

■ FT-SE Actuaries 350 Industry baskets

TRADING VOLUME

■ Major Stocks Yesterday

PERSONAL

هكذا من الاصل

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 15 / Sch)

BELGIUM/LUXEMBOURG (Nov 15 / Frs.)

CZECH REP (Nov 15 / Korуna)

DENMARK (Nov 15 / Kr)

FINLAND (Nov 15 / Mkk)

FRANCE (Nov 15 / Frs.)

GERMANY (Nov 15 / Dm.)

GREECE (Nov 15 / Drachma)

ITALY (Nov 15 / Lira)

NETHERLANDS (Nov 15 / Fls.)

NORWAY (Nov 15 / Kroner)

POLAND (Nov 15 / Zloty)

PORTUGAL (Nov 15 / Escudo)

SPAIN (Nov 15 / Pts.)

SWEDEN (Nov 15 / Kronor)

SWITZERLAND (Nov 15 / Frs.)

TURKEY (Nov 15 / Tk Lira)

PACIFIC

JAPAN (Nov 15 / Yen)

AUSTRALIA (Nov 15 / Aust$)

HONG KONG (Nov 15 / H.K.$)

INDONESIA (Nov 15 / Rupiah)

MALAYSIA (Nov 15 / MYR)

NEW ZEALAND (Nov 15 / NZ $)

SINGAPORE (Nov 15 / S$)

SOUTH KOREA (Nov 15 / Won)

TAIWAN (Nov 15 / TW $)

THAILAND (Nov 15 / Baht)

NORTH AMERICA

CANADA

TORONTO (Nov 15 / Can $)

3:30 pm

MONTREAL (Nov 15 / Can $)

3:30 pm

AFRICA

SOUTH AFRICA (Nov 15 / Rand)

INDICES

	Nov 15	Nov 14	Nov 13	1995 High	1995 Low
Argentina					
General (29/12/77)	(u)	12950.88	12966.20	18831.10 2/1	9831.09 9/3
Australia					
All Ordinaries(1/1/80)	2110.3	2124.6	2122.9	2186.00 18/9	1823.30 8/2
All Mining(1/1/80)	976.9	981.9	985.4	1029.30 7/8	798.39 8/2
Austria					
Credit Aktien(30/12/84)	333.01	334.07	334.94	386.42 3/1	328.58 27/10
Traded Index(2/1/91)	902.18	907.28	912.53	1058.31 3/1	892.15 23/10
Belgium					
BEL20 (1/1/91)	1446.64	1432.46	1425.24	1491.38 2/8	1271.53 9/3
Brazil					
Bovespa (29/12/83)	(c)	37973.0	37870.0	49812.00 19/9	4531.80 8/9
Canada					
Metals Mins♦(1975)	(u)	4961.22	4995.30	5282.77 21/8	3808.63 1/3
Composite♦ (1975)	(u)	4572.20	4582.70	4710.30 12/7	3891.41 30/1
Portfolio§§ (4/1/83)	(u)	2224.15	2236.65	2387.81 12/7	1953.36 30/1
Chile					
IGPA Gen¥(31/12/80)	(u)	5560.9	5624.3	6383.10 11/7	4576.90 9/3
Denmark					
CopenhagenSE(3/1/83)	354.57	356.58	356.64	375.44 25/8	330.01 29/3
Finland					
HEX General(28/12/90)	1871.98	1871.59	1920.83	2332.22 14/9	1655.30 29/3
France					
SBF 250 (31/12/90)	1233.71	1216.27	1215.67	1322.30 13/5	1154.41 13/3
CAC 40(31/12/87)	1575.18	1558.21	1838.24	2017.27 12/5	1721.14 23/10
Germany					
FAZ Aktien(31/12/58)	764.88	766.49	783.55	846.76 19/9	708.87 30/3
Commerzbank(1/12/53)	2291.50	2292.10	2272.40	2427.80 19/9	2018.70 30/3
DAX (30/12/87)‡	2186.17	2197.29	2175.29	2317.01 15/9	1910.96 28/3
Greece					
Athens SE(31/12/80)	898.23	896.84	899.79	992.69 4/8	787.15 16/3
Hong Kong					
Hang Seng(31/7/64)	9451.68	9407.37	9385.22	10032.93 17/10	6967.93 23/1
India					
BSE Sens.(1979)	3158.98	3138.79	3193.77	3932.09 3/1	3016.07 2/5
Indonesia					
Jakarta Comp(10/8/82)	460.51	460.29	467.35	519.18 11/8	414.21 19/4
Ireland					
ISEQ Overall(4/1/88)	2178.15	2161.02	2154.22	2178.15 15/11	1813.59 23/1
Italy					
Banca Comm Ital (1972)	561.07	562.24	566.74	680.54 10/2	555.09 23/10
MIB General (2/1/93)	895.0	896.0	894.0	1076.00 10/2	877.00 23/10
Japan					
Nikkei 225 (16/5/49)	17802.74	17802.51	17780.46	19684.04 4/1	14485.41 3/7
Nikkei 300 (1/10/82)	264.07	265.96	265.93	288.18 4/1	222.28 13/6
Topix (4/1/68)	1411.67	1420.77	1420.75	1653.40 4/1	1193.16 13/6
2nd Section (4/1/68)	1868.89	1885.30	1894.92	2130.98 4/1	1441.90 13/6
Malaysia					
KLSE Comp.(4/4/86)	895.47	893.95	888.50	1065.04 5/6	840.87 24/1
Mexico					
IPC (Nov 1978)	(u)	2241.53	2254.07	2622.21 8/9	1447.52 27/2
Netherland					
CBS TRtnGenEnd 83)	497.1	498.0	496.8	511.80 19/9	422.90 23/3
CBS All Shr (End 83)	301.0	301.6	300.9	311.30 15/9	265.20 23/3
New Zealand					
Cap. 40 (1/7/86)	2184.44	2189.82	2197.12	2208.02 20/10	1901.43 5/1
Norway					
Oslo SE(Ind)(2/1/83)	1207.43	1215.92	1218.04	1292.16 18/10	1036.00 10/3
Philippines					
Manila Comp (2/1/85)	2315.26	2340.41	2360.05	2958.12 10/7	2248.39 27/3
Portugal					
BTA (1977)	2512.0	2528.8	2528.4	2911.60 9/1	2512.00 15/11
Singapore					
SES All-S'pore(2/4/75)	505.80	503.38	503.34	535.06 5/1	472.90 23/1
South Africa					
JSE Gold (28/9/78)	1326.2♥	1358.1	1427.6	2023.00 2/1	1260.20 30/10
JSE Ind. (28/9/78)	7616.3♥	7635.2	7617.9	7678.50 7/11	6222.88 31/1
South Korea					
KoreaCompEx(4/1/80)**	937.04	948.34†	954.04	1027.37 2/1	847.09 27/5
Spain					
Madrid SE (30/12/85)	298.52	299.35	297.01	318.98 13/9	203.30 26/6
Sweden					
AffarsvarldnGen (1/2/37)	1688.6	1682.3	1690.2	1872.10 19/9	1409.80 29/3
Switzerland					
Swiss Bk Ind (31/12/58)	1429.44	1434.54	1431.25	1440.62 9/11	1174.83 13/3
SBC General (1/4/87)	1074.79	1077.40	1074.31†	1082.89 9/11	870.58 13/3
Taiwan					
WeightedPr.(30/6/66)**	4608.70	4630.97	(c)	7051.49 5/1	4503.37 14/8
Thailand					
Bangkok SET (30/4/75)	1176.09	1192.85	1197.27	1472.04 10/7	1135.89 18/3
Turkey					
Istanbul Comp.Jan 1986)	42654.7	42617.1	41418.7	54893.90 21/4	24844.31 23/1
WORLD					
MS Capital Int (1/1/70)$	(u)	697.9*	697.1	703.80 29/9	598.21 23/1
CROSS-BORDER					
Eurotrack 100(26/10/90)	1412.62	1414.40	1411.35	1480.69 15/9	1222.41 13/3
Euro Top-100 (26/6/90)	1283.65	1280.65	1278.89	1318.68 15/9	1117.34 9/3
JCapalDrgns (31/12/88)	(u)	315.04	315.04	349.47 14/7	282.07 23/1
Barings Emerg.(7/1/92)	(u)	133.10	135.53	158.07 2/1	117.15 10/3

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40 (FFr x Index)							
Nov	1842.0	1884.0	+38.0	1890.0	1836.0	25,515	31,018
Dec	1852.0	1893.5	+38.0	1893.0	1847.0	1,993	18,830
■ DAX							
Dec	2189.0	2202.0	+0.5	2204.5	2187.0	14,616	-
Mar	2210.0	2223.5	+2.0	2224.0	2210.0	156	-
■ OMX							
Nov	1318.00	1340.00	+8.00	1345.50	1314.00	4,965	14,788
Dec	1325.50	1349.00	+9.00	1354.00	1325.50	1,027	1,448
■ SOFFEX							
Nov	3127.0	3126.0	-4.0	3131.0	3120.0	4,170	11,556
Dec	3130.0	3128.2	-10.4	3133.0	3124.0	2,479	8,605

** Sat Nov 11: Taiwan Weighted Price 4718.60; Korea Comp Ex 976.25. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000. JSE Gold - 255.7; JSE 25 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS DAX after-hours index: Nov 15 - 2196.84 -0.70.

US INDICES

Dow Jones	Nov 14	Nov 13	Nov 10	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	4871.81	4872.80	4870.37	4872.80 (13/11)	3832.08 (30/1)	4872.80 (13/11/95)	41.22 (2/7/32)
Home Bonds	103.99	103.97	103.97	104.04 (18/10)	93.63 (3/1)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1972.71	1986.45	2005.40	2018.45 (6/11)	1473.19 (3/1)	2018.45 (6/11/95)	12.32 (8/7/32)
Utilities	212.50	213.88	214.07	218.09 (25/10)	183.03 (3/1)	256.48 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's High 4923.11 (4909.75) Low 4826.29 (4821.23) (Theoretical♦)
Day's high 4890.24 (4886.63) Low 4861.70 (4847.81) (Actual♦)

Standard and Poors	Nov 14	Nov 13	Nov 10	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite ‡	589.29	592.30	592.72	593.26 (9/11)	459.11 (3/1)	593.26 (9/11/95)	4.40 (1/6/32)
Industrials♥	693.83	696.93	698.66	698.93 (13/11)	546.28 (3/1)	698.88 (13/11/95)	3.62 (21/6/32)
Financial	58.82	59.50	59.94	61.39 (18/10)	41.64 (3/1)	61.39 (18/10/95)	8.64 (1/10/74)
NYSE Comp.	314.46	315.63	315.78	315.97 (9/11)	250.73 (3/1)	315.97 (9/11/95)	4.46 (25/4/42)
Amex Mkt Val	528.61	530.43	531.00	553.88 (12/9)	433.12 (6/1)	583.58 (12/9/95)	29.31 (9/12/72)
NASDAQ Comp	1040.62	1058.45	1063.87	1067.40 (13/9)	743.58 (3/1)	1067.40 (13/9/95)	54.87 (31/10/72)

■ RATIOS

	Nov 10	Nov 3	Oct 27	Year ago
Dow Jones Ind. Div. Yield	2.39	2.41	2.46	2.78
	Nov 8	Nov 1	Oct 25	Year ago
S & P Ind. Div. yield	2.04	2.07	2.09	2.39
S & P Ind. P/E ratio	18.23	17.99	17.95	20.93

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Micron	12,476,600	56⅜	-5
Enersis ADS	5,868,100	25¼	+⅛
K mart	5,665,300	7⅜	-⅛
USAir	5,538,000	11⅜	-3⅛
Mem Mining	5,353,100	61½	+2½
Telecom NZ	4,680,400	65⅝	-⅝
Telefonos	4,616,800	28	+⅛
Gen Motors	4,361,000	45⅞	+¾
Phrm Upjohn	3,629,900	34¼	+1⅛
Motorola	3,233,200	64⅞	-1⅞

■ TRADING ACTIVITY

● Volume (million)	Nov 14	Nov 13	Nov 10
New York SE	353.833	282.392	287.953
Amex	13.714	14.861	18.279
NASDAQ	458.515	484.218	484.218
NYSE			
Issues Traded	3,043	3,046	3,049
Rises	934	1,022	980
Falls	1,334	1,234	1,232
Unchanged	773	790	857
New Highs	86	113	108
New Lows	48	48	40

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Dec	590.15	591.50	+1.05	592.30	589.90	65,514	198,329
Mar	595.90	597.05	+1.85	597.20	595.00	583	13,981

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Dec	17930.0	17720.0	-150.0	17940.0	17880.0	20,412	154,487
Mar	17900.0	17780.0	-130.0	17950.0	17730.0	3,554	14,361

Open interest figures for previous day.

† Correction. * Calculated at 16.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Wednesday, November 15, 1995

	Stocks Traded	Closing Prices	Change on day
Taito	13.1m	1030	-60
Sumitomo Mtl Ind	11.4m	297	
Hachijuni Bank	9.2m	1120	
Kitagawa Iron Wk	8.7m	891	-24
Shizuoka Bank	8.1m	1200	-20
Mitsui Min & Sml	7.0m	393	-14
Nippon Steel Corp	6.9m	346	+5
NKK Corp	6.7m	261	+2
Japan Energy	6.1m	301	+11
NEC Corp	5.0m	1290	-50

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

4:30 pm November 15

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995 High	1995 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
19	12½	AAR	0.48	2.6	25	74	18½	18⅛	18⅜	+⅜
40¼	35	AMP x	0.92	2.4	20	2758	39⅝	38⅞	39¼	+⅛
80¼	53⅞	AMR			15	9887	67⅞	65⅛	66⅛	-1
47⅞	36⅜	ASA x	1.71	4.4	25	576	39¼	38⅝	38¾	-½
44¾	30¾	AbbtL	0.84	2.1	19	10109	39⅞	39¼	39¾	+⅜
18⅞	12	AbitibiPr	0.40	2.5	8	2766	16⅞	16¼	16¼	-¾
27⅞	21	ABM Ind	0.60	2.3	14	2	26¼	26¼	26¼	
17½	13⅛	Acptncsin			10	257	14⅝	14⅜	14⅝	
37¼	21⅞	ACE Ltd	0.56	1.6	8	7695	35	35	35	-¾
9⅞	8⅛	ACM Gvt In x	0.90	9.5	6	100	9⅝	9½	9½	-⅛
7¾	6½	ACM GvOpp x	0.66	9.1		10	7⅜	7¼	7¼	-⅛
7½	5¾	ACM Gvt Sp x	0.75	10.7		353	7	6⅞	7	+⅛
8¾	7¼	ACM Gvt Se x	0.90	10.3		116	u8¾	8⅝	8¾	+⅛
9½	7⅝	ACM Man x	0.90	10.4		47	8¾	8⅝	8⅝	-⅛
28¼	10¼	AcmeClv x	0.48	2.1	39	92	22⅜	21⅝	22⅜	+⅞
38¾	7½	Acme Elect			65	156	8	d7⅜	7⅞	+¼
34½	23¼	Acordia	0.72	2.6	14	125	27⅝	27½	27½	-⅛
18⅞	10⅛	Acuson			35	144	11⅜	11⅛	11⅜	+⅛
19¾	15⅝	Adams Expr	0.48	2.5	1	382	u19½	19⅛	19½	+¼
38⅞	2⅞	AdvMic			6	6311	21¾	21⅛	21⅝	+⅝
9¾	5	Advest Grp	0.16	1.8	12	61	9¼	9	9⅛	
27⅞	16½	Advo Inc	0.10	0.4	20	738	u27½	27	27¼	+¼
40⅛	24.80	Aegon	1.28	3.1	22	121	u41½	41¼	41½	+1⅝
5⅞	3⅜	Aerflx			8	70	4½	4⅜	4½	
78¼	46¼	AetnaL	2.76	3.8	35	3261	74¼	73	73½	-⅜
44¾	31⅞	Aflac x	0.52	1.3	12	1382	41¾	41⅛	41¼	-½
28⅜	18	Ahmnn x	0.88	3.4	15	2058	25⅞	25½	25¾	
58½	43⅞	AirPrC	1.04	1.8	17	2988	56⅞	56⅜	56⅜	-⅛

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3:30 pm November 15

NYSE COMPOSITE PRICES

Continued from previous page

1995 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26¼	20½	Scana Corp	1.44	5.5	[illegible]	917	26⅛	26	26⅛	
18	14½	Scecorp	1.00	5.9	10	[illegible]	17⅛	16⅞	17	
11¾	6⅛	SchwabA	0.26	4.1	16	10	6⅝	6¼	6⅜	
58¼	37¾	ScheringP			21	1551	41¼	40⅛	40¼	-1¼
57⅞	35½	SchPl x	1.16	2.1	20	5943	56	54¾	56½	+⅞
69⅝	50⅛	Schlmb	1.50	2.4	23	1838	63⅛	62½	63⅛	+½
29	11¼	SchwabC	0.16	0.7	24	4878	23¼	22¾	23⅛	-⅛
24⅞	11⅝	SciAtl	0.06	0.4	21	4018	15⅝	14⅝	15⅜	+1
20	15¼	Scotman	0.10	0.6	10	212	16⅝	16¼	16⅜	
55⅛	33½	ScottP	0.40	0.7	15	9475	53⅝	52⅞	53½	
38⅞	26⅝	Scripps	0.52	1.4	25	719	37⅜	36¼	36⅞	-⅝
21½	13½	ScuddrNAsF	0.02	0.1		163	13⅝	d13½	13½	-⅛
11⅝	8⅝	ScuddrNEurF x	0.16	1.5		119	10⅝	10½	10½	-⅛
20	13⅝	SeaCnt	0.70	3.9	1	5	18	18	18	
16¼	14⅝	SeaGI 4625	1.46	9.2		2100	15⅞	15⅞	15⅞	
52⅛	23⅝	S'gate			10	5712	50⅛	48¾	49¼	+⅜
38⅛	25⅝	Seagrm	0.60	1.6	25	3572	36¾	36¼	36½	-½
22½	15¼	Seagull En			61	732	18⅝	18⅜	18½	-⅜
28¼	18	Sealed Air			25	3272	u30⅛	29¼	30⅛	+1⅛
39⅞	30⅝	SearsR	0.92	2.4	9	8509	38⅞	38¼	38⅞	+⅛
19¼	18⅝	SecCapStl x	1.15	6.3	21	625	18½	18⅜	18⅜	
12⅝	10⅝	Seligm Sel x	0.84	6.9		80	12¼	12⅛	12¼	-⅛
38¼	20	Sensormat x	0.22	1.0	20	6446	22⅞	21¼	22⅜	-¼
31¾	21⅞	SequaA	0.60	1.9	9	477	u32⅛	28½	30⅞	+5⅞
35⅛	23	SequaB	0.50	1.3	20	93	u37⅝	35¼	37½	+5¾
43¼	28¼	ServCp	0.44	1.0	24	3634	[illegible]	[illegible]	[illegible]	[illegible]

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3:30 pm November 15

AMEX COMPOSITE PRICES

[illegible]

3:30 pm November 15

NASDAQ NATIONAL MARKET

[illegible]

AMERICA

US markets volatile awaiting FOMC news

Wall Street

Uncertainty prevailed on Wall Street early yesterday, leading shares to a volatile performance within relatively narrow ranges, *writes Lisa Bransten in New York.*

Factors weighing on the market included the continuing skirmishes in Washington over the outline of a deficit-cutting budget package and questions about what the Federal Reserve's Open Market Committee might do at its meeting.

Most economists believed the FOMC would leave rates steady, but weak industrial production figures released yesterday raised hopes that the central bank might cut rates in December.

At 1 pm the Dow Jones Industrial Average was 7.95 higher at 4,879.76. The Standard & Poor's 500 softened 0.51 point to 589.80, while the American Stock Exchange composite dipped 1.48 to 527.13. New York SE volume amounted to 209m shares.

After rising more than five points at the opening bell, the Nasdaq composite, which is weighted towards the technology sector, spent most of the rest of the morning in negative territory amid modest losses at bellwether high-technology companies.

By midday the Nasdaq was off 1.05 at 1,039.57.

Microsoft declined $⅜ to $93¼. Intel was down $⅝ at $64¼ and Apple Computer gave up $⅛ at $41.

Shares in several paper and forestry groups slipped after analysts at Salomon Brothers and PaineWebber downgraded their investment ratings. Consolidated Papers slipped $3½ or 5.4 per cent to $61¾. International Paper, which is a component of the Dow, gave up $⅝ at $34⅝, Georgia Pacific was $2 lower at $74, Stone Container shed $⅞ to $14⅞ and James River lost $½ at $28.

USAir, which tumbled $3⅜ on Tuesday after United Airlines said it would not make an offer to buy its smaller rival, fell a further $1⅛ or 9.7 per cent to $10½.

American depositary receipts of Mexican companies were mostly lower as the peso continued to drop. Telmex shed $¼ to $25⅞, Grupo Televisa gave up $⅛ at $16½ and Grupo Tribasa was $⅛ easier at $5⅝.

Canada

Toronto was weak in midday trade, with the TSE 300 Composite index retreating 13.41 by noon to 4,558.75 in moderate volume of 29.2m shares.

A mixed picture emerged among high-technology shares. Hummingbird Communications jumped C$3⅞ to C$70⅞ and Gandalf Technologies was C$1⅞ higher at C$15⅞. In the opposite direction, Fulcrum Technologies gave up C$2⅞ on profit-taking to C$40½ and Corel lost C$⅞ to C$23⅛.

Among actively traded issues, Asia Pacific Resources picked up C$⅞ to C$7⅞ and Gulf Resources Canada was 20 cents firmer at C$4.25.

SOUTH AFRICA

Shares were easier as a disappointing bullion price undermined gold shares and industrials drifted easier. The overall index lost 27.6 to 5,980.9, industrials shed 18.9 to 7,616.3 and golds fell 81.9 to 1,326.2. Among significant movers, Anglos receded R3 to R218, Vaal Reefs R5 to R231 and Rustplats R1 to R70.

EUROPE

Paris rallies 2% on welfare reforms

There was relief in PARIS as the government unveiled its tough measures to tackle the social security deficit. The details exceeded expectations and the CAC-40 index jumped 2 per cent or 36.97 to 1,875.18 in turnover of FFr4.2bn. Mr Alain Juppé, the prime minister, said he hoped to balance the budget by 1997.

Mr Stuart Glenister of Société Générale Equities International in London said that the market liked the fact that the government was taking a tough stance, and there were strong expectations now of a further reduction in interest rates.

Financials were also lifted by news that the property development exemption tax was to be extended by another two years. Bancaire forged ahead FFr27 or 5.2 per cent to FFr549, Paribas FFr12.90 or 4.7 per cent to FFr286, UAP FFr5.90 to FFr135.90 and SocGen FFr17 to FFr603.

Elf Aquitaine, which had suffered in recent sessions, was another good story, moving forward FFr15.40 or 4.7 per cent to FFr345.

But there was heavy selling in Euro Disney, suspended during the session limit down, as the market reacted with disappointment to its year to end September results. The stock tumbled FFr2.35 or 14.2 per cent to FFr14.20.

Analysts said that in spite of the theme park's first ever annual profit, the main factor contributing to a return to the black was an extraordinary gain from the repurchase of convertible bonds, while a debt holiday was another contributory factor.

STOCKHOLM was given a new lease of life by Ericsson's nine-month figures and the Affärsvärlden index picked up 6.3 to 1,699.6.

Ericsson closed SKr8 or 5.7 per cent higher at SKr148.5 after posting a 37 per cent rise in pre-tax profits. Analysts noted that the results were in line with expectations but that the shares had been under recent pressure.

FRANKFURT drifted as sentiment was hurt by weakness in the dollar during the session, although there was a rally in Ibis trade. The Dax index fell 11.12 to 2,186.17. However, led by futures the Ibis managed to go forward to 2,196.64. Turnover was DM5bn.

The bank sector took a hit although Bayerische Hypotheken managed to rebuild early losses, ending floor trading unchanged at DM34.10, before rising to DM34.15 in the Ibis.

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

Nov 15 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1405.34	1408.84	1410.84	1411.26	1410.59	1411.62	1411.83	1412.62
FT-SE Eurotrack 200	1515.90	1518.12	1521.90	1521.27	1520.84	1520.96	1522.27	1522.69

	Nov 14	Nov 13	Nov 10	Nov 9	Nov 8
FT-SE Eurotrack 100	1414.40	1411.35	1410.17	1421.30	1418.78
FT-SE Eurotrack 200	1524.10	1521.90	1522.31	1533.52	1528.56

Base 1000 (26/10/90); High/day: 100 - 1413.61; 200 - 1524.27 Low/day: 100 - 1405.34 200 - 1515.90 † Partial

There were hopes that the Buba might make a move on rates today after lowering the repo by 2 basis points to 3.98 per cent yesterday.

MILAN put in a late spurt, reversing early losses, in largely technical activity on the last day of the monthly account. The Comit index registered a 6.17 decline to 561.07 but the real-time Mibtel index picked up from a low of 8,914 to finish 49 higher at 9,055. Turnover of around L700m was twice the level of recent days.

Olivetti receded L17 to L1,184 in a downbeat response to the cost of its planned joint venture with France Telecom to build up the country's second telecommunications network. Telecom Italia declined L47 to L2,280.

Among the banks, BCI fell L47 to L3,050 as the managing director said that he would examine any request to help recapitalise the struggling Banco di Napoli. The latter rose L17 to L815.

ZURICH fell prey to the weak dollar and the SMI index eased 8.2 to 3,124.8.

SMH, the watchmaker, fell SFr16 to SFr662 after UBS and Bank Julius Baer lowered their profits estimates. UBS noted that the strong Swiss franc and the continued sluggish European economy were having a negative influence.

Holderbank finished SFr1 better at SFr851, off a day's high of SFr868 after the chief executive sought to calm dilution worries, which arose after the announcement of the planned capital increase.

Shares in Berner Holding, a medium sized insurer of which Germany's Allianz holds 38 per cent, advanced SFr45 to SFr1,285. Analysts noted that one Zurich based bank was a strong buyer when the shares dipped to SFr1,220, prompting speculation that Allianz was increasing its stake.

AMSTERDAM saw some cyclicals pressured as switching into the financial sector continued. The AEX index made 0.19 to 459.01.

Banks and insurers outperformed the index as ING moved ahead Fl 1.70 to Fl 100 and Aegon appreciated Fl 2.10 to Fl 64.90.

This was countered by selling in Philips, which slipped Fl 1.40 to Fl 58.30, and its Polygram unit, which suffered a fall of Fl 3.60 to Fl 92.30.

Nutricia lost Fl 3.30 to Fl 114 as Unigate, of the UK, confirmed it was selling its stake.

HELSINKI took its cue from Stockholm where Ericsson's results boosted the shares of Nokia, up FM2 at FM238. The Hex index rose 5.83 to 1,871.98 in turnover of FM315.6m.

OSLO was excited by a flurry of merger activity in the shipping sector, but the Total index retreated 3.44 to 701.11 as trade was generally muted elsewhere. Hafslund Nycomed, suspended NKr2.50 off at NKr178.50, announced that it had called off a merger with Ivax.

Written and edited by Michael Morgan and John Pitt

Mexico ponders rise in rates

Mexico City was little changed in late morning trade following a further fall in the peso and a lower than expected rise in domestic interest rates. The IPC index was 9.74 points up at 2,251.27. Volume was a thin 1.6m shares.

Traders said investors were selling dollar-priced Mexican ADRs on Wall Street and buying cheaper local shares following an early drop in the peso. Telmex's ADR, for example, was off $⅛ at $25⅞ while the local L share was ahead 0.8 per cent.

Some investors were also buying shares following a 575 basis-point rise to 59.99 per cent in the benchmark 28-day Cetes, which was much lower than expected.

BUENOS AIRES was encouraged by a government plan billed as "the second state reform" by President Carlos Menem. The Merval index put on 3.09 at 398.32, tracking an early rise in Argentine Brady bonds. Mr Menem announced late on Tuesday a cost-cutting programme that could shave as much as $1.5bn off the 1996 budget. Analysts said the announcements sealed a political truce between Mr Menem and Mr Domingo Cavallo, the economy minister.

● São Paulo was closed for a national holiday.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms Nov. 10 1995	% Change over week	% Change on Dec '94	Local currency terms Nov. 10 1995	% Change over week	% Change on Dec '94
Latin America	(252)	428.20	-3.4	-26.2			
Argentina	(30)	644.31	-0.1	-12.3	395,225.57	-0.1	-12.3
Brazil	(72)	292.15	-5.2	-24.0	1,050.86	-5.3	-13.7
Chile	(36)	688.55	-4.5	-12.2	1,138.83	-5.6	-9.7
Colombia[1]	(16)	569.13	-2.9	-29.9	1,007.95	-2.8	-15.7
Mexico	(67)	386.24	-2.5	-36.5	1,257.36	-0.7	-2.6
Peru[2]	(19)	166.80	-8.8	-6.5	237.31	-7.0	-0.2
Venezuela[3]	(12)	584.98	+10.4	+18.2	2,283.23	+10.4	+18.1
Asia	(677)	218.10	-2.9	-12.6			
China[4]	(20)	57.04	-7.3	-24.8	59.93	-7.3	-26.0
South Korea[5]	(159)	138.68	-2.4	+1.4	140.18	-2.7	-1.1
Philippines	(25)	236.46	-4.2	-20.7	298.40	-4.0	-15.1
Taiwan, China[6]	(93)	103.18	-2.7	-37.2	105.32	-2.9	-35.1
India[7]	(101)	85.70	-4.9	-30.6	105.07	-5.3	-23.6
Indonesia[8]	(42)	103.97	-3.5	+4.2	128.95	-3.4	+8.3
Malaysia	(114)	245.31	-2.2	-8.7	229.29	-2.8	-9.5
Pakistan[9]	(36)	246.43	-1.6	-32.7	382.87	-1.6	-25.2
Sri Lanka[10]	(19)	110.58	+2.3	-35.7	126.36	+1.9	-31.9
Thailand	(68)	349.84	-4.1	-8.8	348.92	-4.6	-8.7
Euro/Mid East	(209)	141.29	+2.0	+19.2			
Greece	(40)	241.19	-1.0	+6.9	382.09	-0.7	+3.9
Hungary[11]	(5)	117.87	+0.2	-22.3	188.11	+0.5	-8.9
Jordan	(8)	185.01	-1.1	+23.3	276.18	-1.1	+24.2
Poland[12]	(16)	461.49	-0.2	-1.7	715.12	-0.0	-0.7
Portugal	(27)	117.33	-1.5	-3.1	119.92	-1.4	-9.5
South Africa[13]	(64)	251.62	+3.5	+12.0	188.85	+3.2	-0.1
Turkey[14]	(44)	128.16	-6.7	+5.3	3,131.58	-6.3	+41.5
Zimbabwe[15]	(5)	265.56	+0.2	+8.5	361.02	+0.1	+19.8
Composite	(1138)	261.89	-1.4	-14.8			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Aug 4 1989; (15)June 2 1993.

The outperformance of Hong Kong relative to the IFC Asia regional index has surprised some analysts, writes John Pitt. Mr Albert Edwards, for instance, Kleinwort Benson's global strategist, says that excluding Hong Kong, the Pacific Rim has fallen some 15 per cent in dollar terms so far this year. This compares with a rise of 17 per cent in dollar terms so far this year in Hong Kong. Taken in perspective the statistics reveal a slightly different picture. Mr Edwards notes that in 1994 IFC Asia declined by 1 per cent, against Hong Kong's drop of 31 per cent. Furthermore, this year's IFC Asian decline, he observes, "represents only a very partial unwinding of the 66 per cent gain enjoyed during 1993". He warns that Hong Kong's outperformance could be coming to an end "as high positive real interest rates exacerbate recessionary worries". He prefers the north Asian enclave of Korea and Taiwan, together with Singapore.

ING Barings has also turned positive on the latter, and yesterday published a bullish note about the city state's banking sector. The group also noted in a separate report that the Asia cellular sector has great potential. Mr David Barden says he expects subscriber growth in the region to reach 31 per cent in the five-year period between now and 2000.

● Following the assassination of Mr Yitzhak Rabin, the Israeli equity market has been relatively calm. UBS Emerging Markets remains a long-term buyer and notes that the interim government is likely to forge even closer ties with the central bank, since Mr Shimon Peres, the acting prime minister, has a good relationship with the governor.

ASIA PACIFIC

Decline in high-tech sector pressures Nikkei

Tokyo

High-technology and speculative stocks came under pressure in Tokyo and the market finished lower after quiet, range-bound trade, *Reuter reports.*

The 225-share Nikkei average was finally 119.77 down at 17,682.74 after fluctuating between 17,655.24 and 17,882.82, in volume estimated at 360m shares, against Monday's 297m.

On the first section, declines outnumbered gains by 625 to 345 and 198 issues were unchanged. The Topix index slipped 9.10 to 1,411.67 and the Nikkei 300 shed 1.89 to 264.07. In London the ISE/Nikkei 50 index eased 0.04 to 1,195.89.

Dealers sold off speculative shares, while foreigners, who had generally stayed sidelined ahead of their book-closing at the end of December, took profits in higher priced high-technology issues after falls in New York.

Brokers said buying through the Big Four securities houses, supposedly on behalf of public funds, emerged in early afternoon trade, supporting indices and discouraging active selling from dealers and foreigners.

Kyocera and Advantest, which were at the core of recent rises, came under selling pressure along with other major electrical stocks.

Kyocera lost Y250 at Y7,720, Advantest Y190 at Y5,410, Fujitsu Y10 at Y1,160, NEC Y60 at Y1,290, Oki Y25 at Y880 and Toshiba Y17 at Y720.

Softbank ended Y1,800 down at Y21,200 due to concern about its $1.8bn deal last week to acquire Ziff-Davis Publishing, of the US, and the effect of Softbank's new share issues on the supply-demand balance.

Benesse, a correspondence education and publishing company which was listed on October 26, continued to slide, losing Y500 at Y14,000.

Roundup

A sharp fall in Samsung Electronics, and continuing worries over the investigation into business kickbacks to the former president Roh Tae-woo, sent SEOUL lower.

The composite index dipped 11.3 to 937.04, its lowest close since September 5.

Samsung Electronics finished down Won8,500 at Won145,500 on heavy foreign selling prompted by worries about a global glut of microprocessors.

Among other blue chips, Korea Mobile Telecom fell Won22,000 to Won452,000 and LG Electronics declined Won900 to Won27,900.

KUALA LUMPUR rebounded after six straight days in decline as Tenaga Nasional led blue chips higher. However, analysts were sceptical whether the rally was sustainable as institutional buying was subdued and led by local funds. The composite index picked up 11.51 to 895.47.

Tenaga, which posted lower than expected full-year profits, rose 35 cents to M$9.25 as investors concentrated on expectations of improved earnings for the 1995-96 year.

HONG KONG made modest gains in listless trade as the market continued to seek direction. The Hang Seng index closed 24.01 higher at 9,431.38 in HK$2.7bn turnover.

Among active stocks, HSBC jumped HK$1.50 to HK$110.50, Hutchison gained 10 cents to HK$41.80 and Cheung Kong advanced 50 cents to HK$42.50.

BOMBAY recovered from a shaky start, helped by heavy short-covering of positions in Reliance, after problems over duplicate shares prompted the stock exchange authorities to suspend trading in the stock for three days from today. The BSE 30-share index rose 20.19 to 3,158.98 as Reliance moved up Rs5.80 to Rs243.50.

TAIPEI saw an early rebound reversed to finish lower on further worries of a split in the ruling Nationalist party ahead of next month's legislative elections. The weighted index lost 22.27 at 4,608.70, off a high of 4,661.14.

SYDNEY was weak on caution over the US budget impasse and concerns at home about a labour dispute at CRA. The All Ordinaries index ended 14.3 lower at 2,110.30.

CRA fell 26 cents or 1.3 per cent to A$20.62 after the Australian council of trade unions called a seven-day nationwide coal strike from Tuesday.

BANGKOK declined to its lowest level since April 27 after an apparent suicide attempt by an indebted investor sparked further worries about the market's outlook.

The SET index finished down 17.76 at 1,175.09 in thin turnover of Bt8.2bn, with recent poor third-quarter results from some leading companies adding to the pressure.

JAKARTA dropped 2.1 per cent on further heavy selling pressure from local investors, the composite index ending 9.77 weaker at 459.52.

Telkom, which made its debut on Monday, retreated Rp50 to end back at its IPO price of Rp2,050.

MANILA remained on the downward path for the fifth straight day and the composite index closed 25.15 lower at 2,315.26 on worries about a gloomy economic outlook.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

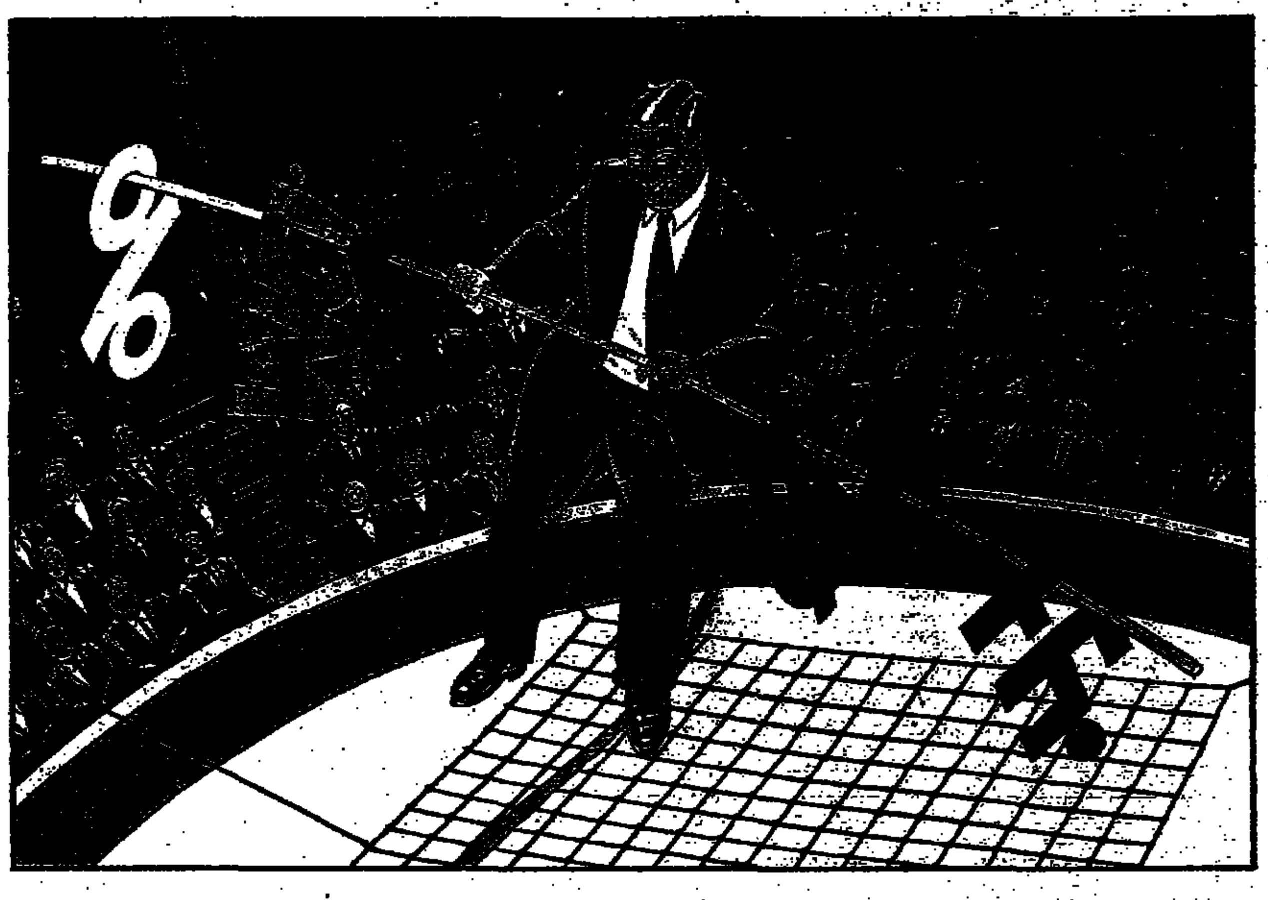
NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY NOVEMBER 14 1995 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY NOVEMBER 13 1995 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (82)	182.56	0.5	173.16	117.24	134.33	163.87	0.1	3.98	181.75	172.89	116.87	134.13	163.84	191.01	157.95	165.32
Austria (27)	169.33	-0.3	160.62	108.68	124.52	124.46	-0.7	1.35	169.88	161.59	109.24	125.37	125.30	199.28	167.48	177.84
Belgium (35)	194.94	0.6	184.80	125.12	143.35	139.90	0.3	3.74	193.77	184.32	124.59	143.00	139.44	201.12	164.78	167.27
Brazil (28)	124.58	0.5	118.08	79.95	91.60	220.75	0.8	1.81	123.97	117.93	79.72	91.49	219.48	188.35	86.06	185.75
Canada (100)	144.47	-1.0	136.96	92.73	106.24	141.67	-0.7	2.60	145.88	138.77	93.81	107.66	142.73	150.83	121.81	131.82
Denmark (33)	280.18	0.3	265.60	179.83	206.04	209.23	0.1	1.55	279.25	265.62	179.56	206.08	209.08	295.99	236.61	247.10
Finland (25)	219.21	-2.4	207.80	140.70	161.20	194.60	-3.2	1.65	224.52	213.57	144.37	165.69	200.95	276.11	171.13	194.96
France (100)	177.22	0.3	167.99	113.74	130.32	135.67	0.0	3.23	176.70	168.08	113.62	130.40	135.65	191.17	157.79	169.39
Germany (59)	159.75	1.1	151.44	102.54	117.48	117.48	0.8	2.03	158.00	150.30	101.60	116.60	116.60	167.74	135.39	142.75
Hong Kong (55)	360.72	0.1	341.95	231.53	265.27	358.20	0.2	4.09	360.18	342.61	231.60	265.81	357.60	388.39	277.40	380.96
Ireland (16)	248.55	0.6	235.62	159.53	182.78	218.08	0.1	3.46	247.16	235.11	158.93	182.41	217.80	250.55	195.34	201.17
Italy (58)	68.93	-0.7	65.35	44.24	50.69	82.06	-0.9	1.85	69.40	66.02	44.63	51.22	82.80	82.71	65.45	77.99
Japan (483)	141.37	0.2	134.02	90.74	103.97	90.74	0.0	0.84	141.07	134.19	90.71	104.11	90.71	164.62	136.95	154.89
Malaysia (108)	425.77	-0.1	403.62	273.28	313.11	415.44	-0.2	1.99	426.07	405.30	273.98	314.44	416.44	561.96	398.16	518.79
Mexico (18)	791.89	-4.8	750.77	508.33	582.41	7057.23	-0.5	1.97	832.22	791.62	535.13	614.16	7092.70	2125.20	647.81	2026.70
Netherland (19)	256.18	0.6	242.83	164.42	188.38	185.37	0.3	3.52	254.68	242.26	163.77	187.95	184.79	263.99	207.60	213.80
New Zealand (14)	80.45	-0.7	76.27	51.64	59.16	65.69	-0.5	4.41	80.99	77.04	52.08	59.77	66.06	85.49	69.56	74.76
Norway (33)	225.27	0.1	213.55	144.59	165.66	191.10	-0.1	2.19	224.96	213.98	144.65	166.01	191.25	243.79	192.92	195.26
Singapore (44)	361.94	0.0	343.11	232.31	266.17	235.83	-0.1	1.75	362.07	344.42	232.82	267.21	235.85	414.26	313.94	390.14
South Africa (45)	375.02	-0.4	355.51	240.71	275.78	268.49	-0.2	3.93	376.45	358.09	242.07	277.81	269.24	376.45	281.06	333.48
Spain (38)	150.43	1.4	142.60	96.55	110.62	138.74	0.9	4.10	148.39	141.15	95.42	109.51	137.51	160.61	124.10	141.67
Sweden (47)	302.71	-0.5	286.96	194.29	222.61	298.68	-0.7	2.01	304.13	289.30	195.56	224.45	300.74	320.43	225.80	240.68
Switzerland (41)	224.82	0.7	213.12	144.30	165.33	158.84	0.3	1.67	223.23	212.34	143.54	164.74	158.35	225.57	158.38	163.65
Thailand (46)	149.89	0.0	142.09	96.21	110.23	146.31	-0.1	2.79	149.91	142.60	96.39	110.63	146.44	184.55	130.15	174.09
United Kingdom (206)	223.71	0.6	212.07	143.58	164.52	212.07	0.3	4.09	222.29	211.45	142.94	164.05	211.45	227.31	187.07	199.42
USA (504)	241.36	-0.4	228.80	154.92	177.49	241.36	-0.4	2.45	242.41	230.58	155.87	178.89	242.41	242.83	182.33	190.55
Americas (650)	219.56	-0.5	208.15	140.93	161.47	164.56	-0.4	2.45	220.62	209.86	141.86	162.82	165.38	221.07	170.66	178.18
Europe (737)	194.04	0.5	183.94	124.54	142.69	163.04	0.2	3.11	193.02	183.60	124.11	142.44	162.72	199.02	163.04	171.75
Nordic (139)	275.04	-0.6	260.73	176.53	202.26	232.37	-0.9	1.89	276.61	263.12	177.87	204.13	234.45	295.02	215.79	229.21
Pacific Basin (832)	151.18	0.2	143.32	97.04	111.18	100.59	0.0	1.30	150.87	143.52	97.02	111.34	100.56	171.87	146.66	164.33
Euro-Pacific (1569)	168.95	0.4	160.16	108.44	124.24	124.17	0.1	2.17	168.34	160.13	108.25	124.23	124.03	178.33	154.73	167.34
North America (604)	235.37	-0.5	223.12	151.07	173.08	234.68	-0.4	2.45	236.44	224.90	152.03	174.49	235.72	236.77	178.86	188.91
Europe Ex. UK (531)	173.85	0.5	164.81	111.59	127.85	136.49	0.1	2.66	173.04	164.60	111.27	127.70	136.30	179.48	146.45	153.24
Pacific Ex. Japan (349)	245.07	0.2	232.32	157.30	180.22	216.10	0.0	3.41	244.66	232.75	157.33	180.57	216.06	266.72	211.19	235.47
World Ex. US (1760)	169.87	0.3	161.03	109.03	124.92	127.75	0.1	2.21	169.39	161.13	108.92	125.00	127.65	178.73	155.42	169.28
World Ex. UK (2058)	188.74	-0.1	178.92	121.14	138.79	155.42	-0.2	2.11	188.87	179.66	121.45	139.38	155.68	191.32	163.48	172.97
World Ex. Japan (1781)	219.86	-0.1	208.44	141.13	161.69	204.97	-0.2	2.78	220.03	209.30	141.48	162.38	205.32	221.43	178.95	187.97
The World Index (2264)	191.79	0.0	181.81	123.10	141.04	160.37	-0.1	2.31	191.79	182.44	123.33	141.54	160.56	194.25	165.82	175.30

PLEASE NOTE: Amendments to indices 14/11/95 applied to Australia, related regional indices and The World Index. Latest prices were unavailable for this edition.

DERIVATIVES

Evolution in the shadow of disaster

After a series of financial losses, dealers in derivatives have become more cautious. They are shifting from the fast track nto a slower and safer lane, says Richard Lapper



:ankers may be reluctant to dmit it, but the derivatives narket continues to evolve in he shadow of disaster.

After the collapse of Barings Bank in February under the weight of £860m of derivatives losses, regulation is one obvious preoccupation. But the Barings debacle – as well as a string of other highly-publicised losses – is also prompting broader changes.

A new emphasis on lower-margin, safety-first products, is emerging. As one dealer puts it: "As the years go by it is becoming more and more like investment banking. It is no longer the wild west frontier it was in 1990."

By bringing the risks faced by banks trading in international markets into sharp focus, the collapse of Barings has prompted a number of regulatory moves. During the summer, for example, regulators from more than a dozen countries agreed to increase information flows between the world's futures and options exchanges and the exchanges followed up with their own independent initiative.

At the same time, the losses have given a new urgency to efforts by banks and securities houses to forge their own increasingly sophisticated risk management systems, helping them monitor and control their exposures to adverse movements in the stock, bond and currency markets – so-called market risk.

These efforts have been reinforced by international initiatives from bank and securities regulators. The Basle Committee of bank regulators, for example, agreed in April to allow banks to use their own "value at risk" computer models which assess the risks arising from market volatility.

Calamity is also shaping the development of derivatives in other ways. Most obviously, the losses have made customers and banks more averse to risk, leading to a slowdown in turnover.

"You talk to mutual fund managers," says Jerry Del Missier, head of interest rate and currency derivatives in Europe at Bankers Trust in London. "They'll tell you they are getting calls daily from their clients asking them whether they have any derivatives in their portfolio. They are steering away from doing transactions because of this climate."

> The derivatives market is becoming more like investment banking. It is no longer a wild west frontier

"There is a lot of antipathy to more complex structures. Anything which is other than plain vanilla seems to ring warning bells," says Ian Garrison, head of UK derivatives marketing at Société Générale in London.

At the same time senior managers at banks and securities houses have reined in derivatives traders, subjecting them to tighter limits in relation to the amount of exposure they are allowed to take on to their books. The growth of trading volumes at both the exchanges and in the OTC market – especially in the most popular interest rate contracts – has slowed down to some extent.

After years of rapid expansion, the number of financial futures and options contracts traded in the first half of 1995 was 581.5m compared with 602m in the same period last year, for example.

Figures for over-the-counter dealings show a similar pattern. According to estimates by Swaps Monitor, a specialist publication, revenues from OTC derivatives at dealers headquartered in the US increased to $1.3bn in the second quarter of 1995. This was still some $600m less than the $1.9bn achieved in the first three months of 1994.

More importantly, dealers report a shift in the type of business being transacted, with a marked decline in interest in the highly leveraged structures which proved popular during 1992, 1993 and early 1994 and which in some cases provided rates of return for dealers of more than 30 per cent.

"You have seen a shift away from high-margin towards low-margin transactions," says Paul Spraos, the publisher of Swaps Monitor. "In notional terms, the volume of business written in 1995 is clearly greater than it was in 1993 but the business mix has shifted towards low-margin transactions."

As a result of these trends – and in response to the greater interest in risk management and risk control – bankers and securities dealers are putting greater emphasis on the way in which derivatives can protect buyers against sudden variations in interest or currency rates rather than enhance returns.

This shift is most apparent in the kind of over-the-counter interest rate products sold this year. Path-dependent techniques, which tie a return to the path taken by an interest or exchange rate, are being used to reduce the cost of interest rate caps, making the product more flexible and cost-effective.

Barriers, which make an option vanish if rates go up above or down below a certain pre-agreed limit, allow dealers to tailor protection more precisely and more cheaply. And although products allowing buyers to enhance yields have not disappeared, they are being structured more conservatively.

David Brown, vice-president at Chase Manhattan, says that "almost all yield enhancement products require principal guarantees" (where the investor does not risk any of the principal committed). By contrast, between 1992 and 1994 – a period identified by dealers as the heyday of the interest rate market – corporate buyers sometimes risked not merely their interest earnings, but also the principal and sometimes even a multiple of this principal amount.

If a deal went right an investor could earn many times what he would have earned from a straightforward investment. If it went wrong the same investor could become bankrupt. "It was the roulette version of derivatives," says Paul Miron, head of European derivative trading at Chase Manhattan. "This has disappeared – what we have now is the premium bond version."

From the banks' point of view these products are no less complex than the more highly-leveraged varieties sold previously, but competition is making business tougher.

Many more banks are following the pioneers of the US and Swiss investment banks into the derivatives market. This year has seen the expensive recruitment of a number of highly specialised derivatives technicians and traders. The increasing availability of computer power and computer expertise is adding to the pressures by shortening lead times on products and shrinking margins. "Five years ago you had six to nine months on your own. Now if you have a new product it will end up on your competitor's desk within a fortnight," says one dealer.

Dealers report that margins on complex swaps transactions have fallen from about 25 basis points to two basis points within the past two years.

"Certainly in more competitive markets margins have been absolutely crushed," says James Orbell, director at Credit Suisse Financial Products.

The slowdown in turnover has increased dealing costs in the exchange-traded and OTC markets. Having built up specialist teams during the bull markets, banks and securities houses are now faced with over-capacity.

Derivatives specialists are now attempting to find new products which will deliver the same margins achieved in the interest rate market of 1992 to 1994. So far, at least, the search has not been successful. Although growth in the equity and foreign exchange markets has been relatively good, margins in both areas are tight.

A number of banks have invested heavily in credit derivatives – but interest has yet to take off to any appreciable extent. In some quarters there are still hopes that insurance derivatives offer unparalleled opportunities for growth, although again there has been only modest volume on the exchanges and only a scattered few deals on the over-the-counter markets.

Executives at the futures and options exchanges are resigned to the fact that – in the words of one exchange executive – "the great period of contract development for financial futures is probably over". It seems possible that the OTC dealers, too, may have to accommodate that reality, adjusting to life in a slower – but hopefully safer – lane.

IN THIS SURVEY

Editorial production: Roy Terry

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Disaster round-up: by James Harding and Conner Middelmann

The signs that spell danger

Several big-figure financial losses have resulted in a more cautious approach

To the City's "rocket scientists" and the industry's finance directors, derivatives may seem the alchemy of modern finance, but to the average punter, they spell disaster.

A catalogue of big-figure losses has been topped by the collapse of Barings, Britain's oldest merchant bank.

Little wonder then that the unbridled enthusiasm in the mid-1980s for the opportunities offered by manipulating existing financial instruments has been tempered by a wariness of the potentially dangerous financial devices.

Judging by past experience, disaster looms in the derivatives market if users slip down one or more of three primrose paths.

Overconfidence: years of bumper returns or reliable markets have lured institutions into making assumptions about sure-fire investments. But even the most bankable dealers (Nick Leeson) and stolid markets (German Bunds) can prove unpredictable.

Anthony Belchambers, chief executive at the Futures and Options Association, says one thing most trading disasters have in common is that "often, *corporate greed is involved to* some degree – companies trying to increase their bottom-line earnings by using leveraged products".

Loose control: a symptom of overconfidence, or just bad management, inadequate monitoring procedures in derivatives dealing can quickly mean that small losses ballooning out of control.

Recent financial disasters, *and not all of them have been* in derivatives, have tended to involve some form of unauthorised trading. "If you don't have the right controls in place you can't catch the problem fast enough," says Mr Belchambers.

Ignorance: perhaps the most unforgivable offence, and one that on occasion has been fostered by financial advisers, is signing up for something you do not understand.

The four most famous failures given below show how even the most established and respected companies can fall foul of the derivatives markets.

Barings: in February, Barings went bankrupt, after losses of more than £860m accrued on the Singapore and Osaka derivatives exchanges.

The bank was the victim of its own star trader, Nick Leeson, and the absence of management controls to monitor his activities. Mr Leeson was responsible for both trading and back office records of his deals at Simex, the Singapore exchange.

Between 1992 and 1995, he built up positions in Nikkei 225 futures and options contracts, which in the early years proved highly profitable for Barings.

In the seven months to July 1994, Barings proprietary trading activities in Singapore generated a profit of $30.7m, equivalent to roughly a fifth of the entire group's profit for the previous year.

One speciality was selling put and call options on the Nikkei, an instrument known as a straddle which bets against the volatility of the market.

During 1994, the markets performed reasonably well for Leeson, with the Nikkei contracts staying within a narrow range.

But in early 1995, the combi*nation of the Kobe earthquake* and a turn in investor sentiment against Japanese markets drove the Nikkei sharply down, resulting in huge losses for Barings.

Soon the margin calls on Leeson's contract had exceeded Barings capital base of £540m and the bank was forced to cease trading.

Its employees were saved by Internationale Nederlanden *Group, which bought Barings* and took on its losses for £1.

Metallgesellschaft: the German industrial and chemicals trading group, got caught out in 1993, when the markets turned against them on what originally seemed a comparatively safe bet.

The company sold petrol, diesel and heating oil and other products to customers on fixed price contracts up to 10 years ahead. To protect itself against price movements, it hedged the full amount with futures and over-the-counter swap contracts.

Over the previous 10 years, the market had mostly been in backwardation, when spot prices exceed near futures prices, so hedging in short-dated futures would produce profits as each expiring contract yielded more than it cost.

The opposite to backwardation is a contango, when near futures prices rise above spot prices. This occurred in 1993 upsetting MG's calculations. Every $1 fall in the oil price meant an extra $160m of margin payments. Rollover losses approached $50m a month.

There was some controversy over blame for the losses. After the banks weighed in and *wound up the contracts, MG's* derivatives dealers claimed that eventually profits on the delivery contracts would have offset the trading losses.

But auditors Wollert-Elmendorff and CL Treuarbeit, who produced a bulky report on the affair, said the losses were caused by the size of the trading exposure and not by the winding-up.

Eventually, banks, headed by Deutsche and Dresdner Bank, stepped in with a DM3.4bn ($2.43bn at the time) rescue in January last year.

The company has sold assets, shed staff and cut costs and in 1995 has rewon investor favour, *promising healthy profits* for the year.

Procter and Gamble: last year, Procter and Gamble, the US consumer products group, was forced to take a $102m after-tax charge in the first quarter, after getting caught short with highly leveraged interest rate swaps as monetary policy in Germany and the US moved against them.

P&G had been using deriva*tives instruments, such as* swaps, to cut the cost of its borrowing and manage its exposure to interest rate and foreign exchange for years.

However, the company took out two highly-leveraged swaps contracts, designed by Bankers Trust to allow PG to swap fixed interest rate loans for floating interest rate loans, on the assumption that US and German interest rates would stay low.

When interest rates rose sharply, P&G lost money on the contracts, which they have since said were inconsistent with the company's internal policy on the use of derivatives.

P&G quickly turned on Bankers Trust, claiming they had been misled, and in the latest development in what has become the most acrimonious of derivatives court cases, filed a complaint against Bankers Trust under the US's anti-racketeering legislation.

Hammersmith and Fulham: the London local authority, ran up huge losses on derivatives contracts in the 1980s, as councillors and council workers succumbed to the advice of city brokers entering a complex financial market they barely understood.

When it emerged that the contracts were unenforceable, the House of Lords ruled that local authorities did not have the power to enter into swaps contracts.

The London borough entered the sterling interest rate swaps market on December 1, 1983. Council finance officers had visited the London International Financial Futures Exchange where the idea of using swaps to reduce the sensitivity of the council's borrowings to interest rate fluctuations was explained to them.

An independent inquiry in 1991, however, showed that *such was the level of the user's* understanding, that the leader of the council and the finance department were not clear whether they were interested in futures or options transactions.

The council's activities in the money markets intensified in May 1987 when it began to become involved in swap options and other complex transactions, eventually total*ling 550 transactions.*

Despite the volume of contracts and the size of the risk, there was never any monitoring system established to track the performance and possible dangers of their derivatives business.

Eventually, the council got caught out on interest rates moving against the assumptions that lay behind their swaps contracts.

Regulation: by Laurie Morse

Codes of conduct abound

High-profile losses this year have prompted several initiatives for reform

High-profile losses linked to derivatives transactions have kept financial journalists busy during the past 18 months, and have left financial regulators puzzling over how best to protect end-users of risk management products, and how even to protect derivatives dealers from themselves.

Although none of the past year's high-profile derivatives losses – Barings, Metallgesellschaft, or Orange County – has resulted in a systemic crisis, they have rekindled regulatory interest in upgrading stan*dards for derivatives supervi*sion.

Furthermore, a landmark fraud settlement in the US involving derivatives dealer Bankers Trust Securities and its client Gibson Greetings has *sent swaps traders and other* over-the-counter dealers in tailored instruments scrambling to write voluntary codes of conduct to clarify the rules of their rather obscure game.

A change in legislative climate in Washington, with the new Republican Congress, has headed off any additional legal restrictions to derivatives trading in the US. At the same time, established regulatory *agencies have taken the oppor*tunity to expand their reach into derivatives supervision through disciplinary rulings.

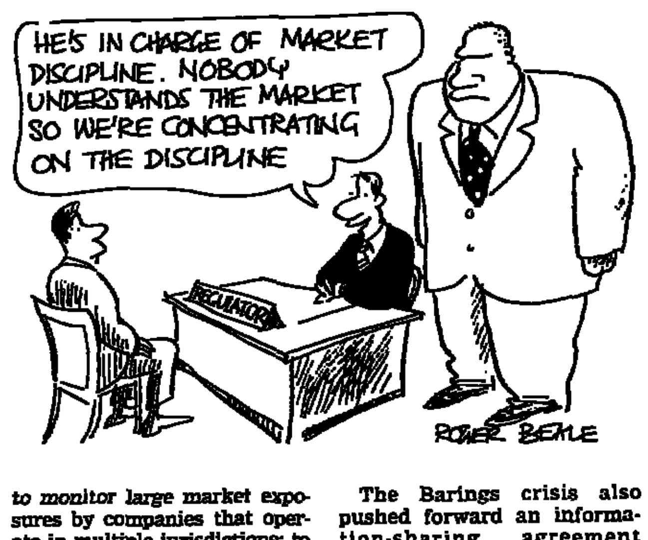
The demise early this year of the UK bank Barings in the wake of unsupervised futures dealings in Asia, and a similar debacle last year that brought German industrial giant Metallgesellschaft to near bankruptcy have prompted a raft of international reform ini*tiatives.*

"Barings really made people consider the whole area of systemic risk," notes Mary Schapiro, chairman of the Commodity Futures Trading Commission (CFTC), the US's chief derivatives regulator.

The fact that both the Barings and Metallgesellschaft losses were generated on heavily-regulated exchanges shook the complacency of traders, *who have historically* believed the listed exchanges are far less vulnerable to financial accident than loosely-regulated over-the-counter derivatives markets.

The Barings crisis has inspired a far more open discussion by derivatives regulators around the world about how better to share information and upgrade the *quality of* supervision so that a similar event might be detected before it becomes a crisis. On the same note, futures trading firms are coming to terms with the reality that differences in bankruptcy laws worldwide result in uneven protections for customer funds.

One of the most notable supervisory undertakings to follow the Barings crisis has been the Windsor Accord. At a meeting in the UK early this summer, derivatives regulators from several countries agreed to work more closely together



to monitor large market exposures by companies that operate in multiple jurisdictions; to co-ordinate regulatory actions when necessary; to make clearer what happens in each jurisdiction in the case of a trading firm default; and to strive to improve domestic supervision where possible.

"We've seen a lot of progress in a number of countries, including Japan, on these ini*tiatives," Ms Schapiro said.* Singapore monetary authorities are about to issue derivatives recommendations, and the Singapore futures exchange, Simex, recently announced a spate of supervision and enforcement upgrades.

Ms Schapiro's own agency, the CFTC, has upgraded its enforcement staff this year, has received an increase in *funding that will be funneled* primarily into enforcement actions, and, in an interesting exercise, has conducted "fire drills" at the nation's three largest futures exchanges to see if the existing supervisory framework could deal with a $100m default. The exercise, CFTC officials said, exposed some issues that had not been *anticipated, and regulations* are being upgraded accordingly.

US financial regulators and exchanges are also constructing some "trigger mechanisms" that allow wider infor*mation sharing* between agencies when a company's market position becomes large in relation to its capital, or when that position comprises a significant percentage of open trades in a particular market. Those same triggers will be presented next year to international regulators, to see if they would be useful globally.

The Barings crisis also pushed forward an information-sharing agreement between the clearing arms of 19 US securities and futures exchanges, an initiative that over the long run could serve as an early-warning system in the event of a potential large default. Members of the Unified Clearing Group, as it is called, are optimistic that similar information-sharing arrangements will eventually be possible across borders.

Meanwhile, the over-the-counter derivatives markets have not escaped controversy, and, similarly, have been swept into a frenzy of voluntary actions in the wake of the US Federal Reserve's administrative agreement with Bankers Trust Securities.

In its landmark decision against Bankers Trust last *November, the Fed found that* the securities firm had lied to its client, Gibson Greetings Corporation, failed to disclose essential risk information, and betrayed its fiduciary responsibilities to its customer.

By imposing a hefty fine and requiring an outside evaluation of the company's business practices, the Fed inspired a minor industry for derivatives lawyers intent on protecting dealers from similar liability.

"The Fed's [administrative] agreement with Bankers Trust was so extensive and intrusive that it tested the theoretical upward boundary in terms of sales practices," says Henry Hu, a law professor and derivatives specialist at the University of Texas at Austin. "In terms of leveraged derivatives transactions, which is what it dealt with, it set some pretty high standards of conduct."

Interestingly, the Securities and Exchange Commission this summer also sanctioned Gibson Greetings for its dealings with Bankers Trust, saying that while the company may have been a victim of fraud, that did not excuse corporate management from the responsibility of understanding the risk inherent in its Treasury operations.

In direct response to the Bankers Trust/Gibson case, over-the-counter derivatives dealers cobbled together an extensive document of voluntary conduct guidelines. Dubbed Principles and Practices for Wholesale Financial Market Transactions, the code has been criticised for its bias toward the dealer community and its assumption that dealers and end-users enter trades on equal footing as counterparties.

Essentially, the dealer group which drafted the guidelines wanted an iron-clad protection from a client returning after a *losing trade and saying it had* been put in an unsuitable transaction. Principles and Practices recommends its subscribers agree in writing, ahead of a trade, if one counterparty feels it is relying solely on the other for information or advice.

The guidelines have alarmed some end-users, and the National Association of State Treasurers in the US has warned its members that by doing business with a company that uses the voluntary pact they may be waiving valuable legal rights.

US end-users are looking *more favourably toward a new* set of derivatives guidelines now in the draft stage in the UK, sponsored by London's Futures and Options Association.

Futures and options exchanges: by Emma Davey

Slow but steady convergence

The OTC and the exchange-traded markets are now coming together under one umbrella

It was not so long ago that exchange-traded futures and options were seen as a very distinct market from deriva*tives, the latter* being viewed as the over-the-counter, more complex and highbrow sector of which few had any understanding outside the confines of bank dealing rooms.

All that has changed. Now the two come under one umbrella and the convergence between the over-the-counter derivatives and the exchange-traded market continues at a slow but steady pace.

From the point of view of exchanges, the start of the decade caused many to be concerned that the burgeoning business done in swaps and OTC options would deprive them of potential business. *Moreover, there* was a great deal of cynicism and defensive talk from exchanges describing OTC derivatives as a shadowy world of unregulated activity with no watchdog to answer to.

As it became clearer that, rather *than* swallowing up exchange business, the OTC sector was growing at equal pace and indeed contributing strongly to such markets as Chicago Mercantile Exchange's (CME) eurodollar futures and options, exchanges have changed tack. They are now keen to offer market participants the flexibility of OTC products with the security of the exchange environment and clearing house mechanism. *They* are also embracing the knock-on business from OTC transactions which are largely hedged on exchanges.

The first half of this decade has already seen substantial development in this respect. In *the currency sector,* for example, CME attempted to satisfy the demands of the foreign exchange derivatives market with its Rolling Spot products, first launched in June 1993. These were designed to reflect *the requirements of the foreign* exchange swaps market with larger contract sizes and without some of the burdens of transacting in the OTC market.

The Philadelphia Stock Exchange has taken the notion a step further with its United Currency Options Market, (Ucom). Ucom allows trading in up to 110 currency pairs in a more flexible structure than previously existed. These include the usual dollar, yen and large European currencies as well as some smaller ones, such as the Italian lira and Spanish peseta, that are only listed in Philadelphia. Joseph Rizello, executive vice-president of the exchange, predicts that in the future more currencies will be added to reflect the growing interest in such areas as eastern Europe and China.

Already, PHLX is setting up a relationship with the Hong Kong Futures Exchange to trade Ucom products, a project that should be under way in the first quarter of next year. HKFE, meanwhile, launched its own currency products, Rolling Forex, on November 3, futures contracts on the D-Mark and the yen.

Flexible is the key word *when it comes to exchange*-traded products replicating OTC requirements. In the interest rate sector, these are seen on the Chicago Board of Trade, where Flex (trademark) options contracts can be traded on the *US T*-bond, 10-year T-note, five-year T-note and two-year T-note. CBoT also allows the trading of exchange for physicals on all its products.

Basis trading, or exchange for physicals, are common methods of trading by OTC players. These allow the simultaneous purchase or sale of a bond, for example, in the cash market and offsetting purchase or sale in the futures market. Now, the principle of basis trading is being welcomed and incorporated by others. Liffe in London set up its Basis Trading Facility (BTF) on June 30 to enable traders to cross trades in the bund futures and cash market. The move has proved a success with an average of more than 2,500 bund contracts traded through BTF daily in October. In Germany, Deutsche Börse launched a similar scheme for its bund and bobl (bundesobligation) futures on October 20.

On the same day as the launch of BTF, Liffe also introduced Flex options on the FT-SE 100 stock index. This, too, was designed to meet the requirements of the more demanding institutional investor. Since its launch on June 30 to the end of October, the FT-SE 100 Flex option has traded 51,509 contracts.

Liffe's launch was just the latest in a list of similar developments by exchanges initiated in Chicago. Flex (trademark) is a proprietary name belonging to the Chicago Board Options Exchange (CBOE), the first exchange to introduce the concept which allows participants trading exchange contracts to set their own size and delivery specifications. On CBOE, Flex options on the S&P 100 and 500, and Russell 2000 stock indices now account for an average daily dollar value of over $164.5m. Other exchanges will follow suit, including Soffex in Switzerland, which plans to introduce a flexible option on its SMI stock index next year.

But it is not only in the product development that exchanges are able to service the derivatives industry. As concerns mount over counterparty risk in derivatives, exchanges are also *looking* at how they may lend their expertise in that area to the OTC sector. Already the Swedish-based *OM* exchange offers a tailor-made clearing service for swaps and other OTC trades in Stockholm and at its London subsidiary OMLX, while in Spain Meff is awaiting regulatory approval to provide clearing for the Spanish swaps market.

But talk from the OTC sector itself suggests this is not the level of assistance it requires from exchanges. Rather, with the growth in the amount of swaps business now supported by *collateral, the industry* is looking to the expertise from exchange clearing houses in the management of that collateral. Latest available figures from the International Swaps & Derivatives Association (ISDA) suggest *that around* $6.9bn of the current replacement value of swaps (totalling $77.9bn) is collateralised. ISDA expects that level to grow.

It is with this in mind that Chicago's futures exchanges, CME and *CBoT*, have planned their services for the OTC sector. CME has developed the Swaps Depository Trust, which is expected to be launched [in] the second quarter of 1996, while the Board of Trade Clearing Corporation (BOTCC) is due to unveil its Hybrid Instruments Transaction Service (Hits) at around the same time.

The author is managing editor of Futures & Options World.

Top 10 futures exchanges (millions of contracts)*

Rank	Exchange	Jan-Jun 1995	Jan-Jun 1994
1	Chicago Board of Trade	109.7	121.7
2	Chicago Mercantile Exchange	103.9	106.5
3	BM&F, Brazil	71.7	39.1
4	Liffe, London	68.9	84.8
5	New York Mercantile Exchange	39.2	40.8
6	Matif, Paris	36.6	57.0
7	London Metals Exchange	24.3	22.8
8	DTB, Germany	23.6	23.4
9	Tiffe, Tokyo	23.0	21.2
10	Meff Renta, Spain	19.3	18.2

*Ranked by volume generated from January through June, 1995. Note: contract sizes vary. Methods for counting options volumes vary from exchange to exchange. Volume figures include futures and options contracts. *Source: Futures Industry Association*

Volumes down in 1995

Financial futures exchanges *in established trading* centres such as London, Chicago, and *Paris* all experienced volume declines in the first half of this year, and business continued to lag through November.

By contrast, exchanges in "emerging" futures markets such as Brazil and Spain saw volume surge this year, led by stock index and interest rate trading. Brazil's BM&F nudged London's Liffe out of its ranking as the world's third busiest *futures* exchange, while Spain's Meff joined the top 10 rankings for the first time.

Exchanges dealing primarily in commodities, such as the London Metals Exchange, found their business either remained flat or expanded in the first half of the year.

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PROFILE Matif

Volumes drop 31 per cent

If 1995 has been an uncertain year for brokers on the world's derivatives exchanges, it has been one of at least equal volatility for Matif, the French financial futures exchange.

In line with many of its competitor markets, the volumes traded in Paris have been down sharply on 1994. Total volumes across all of its products were down 31 per cent during the 10 months to the end of October, with financial options down 40 per cent and futures by 25 per cent.

There was some compensation from commodities contracts, which rose by 6 per cent in the same period. On futures and options, the market has been boosted slightly since September by market uncertainties in the light of France's domestic political problems. For the full year, market officials estimate average volumes are likely to be about 25 per cent down on 1994.

But the apparent malaise is something which Gérard Pfauwadel, chairman of Matif, takes in his stride. "1995 is not the best year we have ever had," he says. "But we are in a cycle and we were more privileged in previous years, so it is only fair."

Compared with the sharp exchange and interest rate fluctuations of 1994, 1995 has been much calmer. He is sceptical whether reaction to the Barings crisis, Proctor & Gamble and other cases touching the problems with derivatives, have had a serious effect, but admits "they have not helped".

Despite his apparent insouciance, Mr Pfauwadel concedes that continued lower levels of activity in the long term would inevitably affect the Matif, which derives its income from commissions on the contracts it trades, and which is committed to a number of ambitious investment projects.

But far more important fluctuations have touched the exchange in Paris from the start of this year. In January, "locals" – the *negotiateurs individuels de parquet* – effectively went on strike for about a week in a demonstration about changes to fees and broader issues concerning their link to Matif.

However, Matif achieved a significant victory in March when the UK Treasury finally gave approval for the organisation to become a "recognised investment exchange", more than two years after it had originally applied. That may turn out to be something of a hollow victory, particularly given that the European investment services directive will make such recognition obligatory once it is implemented, which is theoretically at the start of next year.

Of all the political international discussions involving the Matif, none has been more fundamental than the meandering nature of negotiations held between it and the Deutsche Terminbörse (DTB), its Frankfurt equivalent. Events over the past few months have radically altered the original plans.

The two bodies originally signed an agreement in December 1993. The aim was to bring the exchanges together, initially by each exchange offering for electronic trading two of the products of its counterpart.

In September 1994, DTB met its side of the bargain by offering the German bond and medium-term bond to traders based in Paris. In line with the accord, Matif was to select two products from a shortlist of four which would be reciprocally offered to Frankfurt.

Instead, there was considerable debate and controversy during the spring and summer – not least with voices raised by the Matif locals, who feared losing their market if the open outcry system was displaced by electronic trading.

It culminated in a statement in April that the agreement was being subsumed into far broader talks about co-operation between the German and French stock exchanges as well as their derivatives markets. Mr Pfauwadel is keen to stress how history has changed since the original agreement. At the time of the agreement, the two national derivatives exchanges were independent. Since then, the DTB has become an integral part of the Frankfurt stock exchange.

Equally, the discussions were taking place against a backdrop of the possibility of monetary union by 1997. This summer, EU ministers at the Cannes summit eased off much of the pressure by formally agreeing that the union would take place at the earliest in 1999.

Some observers believed the exchanges' decision for a much wider agreement was a stalling action which would scupper any plans for eventual co-operation. However, at the start of November the Paris and Frankfurt combined organisations announced an outline accord.

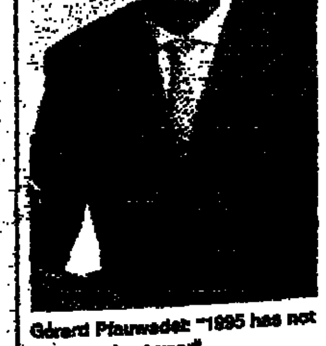
In principle, the German exchanges will provide the technology for electronic trading on the Paris and Frankfurt derivatives markets, while the French stock exchange will provide the systems in both markets for equities. A final decision is to be made by the end of March next year, after which the choice of which derivatives contracts will be offered is due to follow.

A number of uncertainties remain. Frankfurt is not yet formally committed to using the French system and is considering alternatives. Opposition will also remain to the shift towards electronic trading of Matif, and fears that this may delocalise the market.

But Mr Pfauwadel is confident and stresses the importance of continuing to find new products and new ways to innovate in the future. Matif is poised to make the decision on whether to launch a new commodities futures product for wheat, following the relative success of its rape seed market.

Andrew Jack and Richard Lapper

Matif locals have raised their voices against electronic trading



Gérard Pfauwadel: "1995 has not been our best year"

■ **Alliances between markets:** by Richard Lapper

Strategic global electronic connections

Links have recently been forged between several exchanges, seeking to reach new markets

Alliances between the world's futures and options markets have become increasingly fashionable, as exchanges step up efforts to distribute products more widely. The trend has been highlighted by a number of recent developments. Two deals this year have connected the London International Financial Futures and Options Exchange (Liffe) to markets in other time zones.

■ This week, Liffe concluded an agreement with the Tokyo International Financial Futures Exchange (Tiffe), allowing it to trade Tiffe's three-month euroyen contract in London when trading closes for the day in Tokyo.

■ Earlier this year, Liffe and the Chicago Board of Trade (CBoT) announced a deal allowing Liffe traders to deal in the US exchange's Treasury bond contracts in the London morning. In turn, Chicago traders will deal in Liffe's bond contracts after the London close. The deal is expected to come into effect next year. If successful, it will allow Liffe to market its products more successfully in the US, and give the CBoT improved access to the European market.

Separately, the electronic link-up in the autumn of 1994 between France's Matif and Germany's Deutsche Börse highlights the use of new computer-based trading technologies. The exchanges have agreed to trade a select number of products over a common electronic network and are now looking to expand the agreement to cash equity markets.

In addition, there has been a plethora of other connections. European and US exchanges have made a number of initiatives to link up with smaller but rapidly growing Asian exchanges, and a number of the world's commodity derivatives exchanges are seeking connections with the bigger financial markets.

■ As well as its link with the CBoT and Tiffe, Liffe also has links with Simex, the Singapore exchange, which is already tied to the Chicago Mercantile Exchange (CME) in one of the most successful exchange link-ups.

■ Separately, both Liffe and the CBoT are also involved in talks with the London Commodity Exchange (LCE), which simultaneously has discussed merger with the New York Coffee Sugar and Cocoa Exchange and the International Petroleum Exchange.

■ The New York Mercantile Exchange's tie-up with the Sydney Futures Exchange will allow Sydney brokers to trade electronically Nymex's oil and natural gas contracts during the Australian day, while the Philadelphia Stock Exchange has a link with the Hong Kong Futures Exchange.

The connections are happening for a variety of reasons. The world's largest investment banks and securities houses – which own and control a number of exchanges – are tending to exert greater influence, and demanding much greater co-operation between the markets. These banks are increasingly offering integrated global services to their customers, ranging from trading to settlement and clearing activities. With banks and investors taking an integrated approach to financial markets, the traditional lines dividing different kinds of commodity exchange and financial markets are seen as increasingly artificial.

At the same time, with volumes falling and costs rising, dealers are becoming conscious of the need to make economies. The number of financial futures and options contracts sold in the first half of 1995 totalled 581.5m compared with 602m in the same period last year, for example. "The rates are not looking as attractive as they were," says Alex Cooper, director at Crédit Lyonnaise Rouse in London. "The major players have all the infrastructure in place but are not operating at full capacity and want to reduce costs," he says.

Links are also favoured because of the rising concern about the security of the derivatives markets in the wake of the collapse of Barings Bank in February. Investigations into the Barings debacle have uncovered low levels of co-operation between the Osaka and Simex exchanges, where the bank's losses were incurred. Initiatives by both regulators and the exchanges themselves following the disaster have emphasised the importance of information sharing, reinforcing the economic arguments supporting arrangements such as mutual offset between clearing houses. One example is that clearing houses acting for 19 US exchanges recently agreed to exchange more information.

The move towards alliances also reflects the maturity of the domestic markets for financial derivatives, such as bond futures and options. Over the past 20 years, sales of the world's biggest financial contracts have grown. Since its formation in 1982, Liffe has enjoyed annual compound growth of 50 per cent a year in the volume of contracts traded.

But it is widely accepted within the industry that growth at this pace cannot continue. Philip Bruce, managing director, strategic business development at Liffe, says: "The great period of contract development of financial futures is probably over."

The costs of marketing and researching new products is rising and the exchanges are faced with an increasingly expensive burden of regulation, which is inhibiting their ability or willingness to devote scarce resources to product development. Mr Cooper says the "immediate product range has been exhausted so product sharing arrangements are in the ascendant. There is likely to be a dearth of new products until the markets of China and Russia and eastern Europe come on stream".

As a result, exchanges are eager to examine channels through which they can sell more of their existing products or earn a commission by selling products listed by other exchanges. "In the past, exchange members saw revenues and profits being generated by the development of new products," says Mr Bruce. "Now that new product development has dropped off, exchange members and the exchanges themselves are looking to grow through wider distribution."

In addition, the alliances, reflect an intensification of competition between exchanges. In Europe, Liffe and Germany's DTB have battled for control of the continent's biggest bond futures contract. So far, Liffe has been successful, retaining a market share of some 70 per cent, but the commercial battle could begin to assume another dimension as the exchanges' respective alliances develop. Liffe's own strategic initiatives – linking it with exchanges in two different time zones – was launched following its decision to reject participation in Globex.

Increasingly, different trading philosophies are influencing alliances, too. "People now accept that there is competition between exchanges – previously they didn't think in those terms. This reflects a more hard-headed commercial approach," says Ruben Lee, the director of the Oxford Finance Group.

■ **Equity derivatives** by Henry Harington

Vanilla the flavour of the times

Retail investors are using equity derivatives in larger amounts than ever before

The market for equity derivatives has become a forum for apparent paradoxes. Public hostility to the dangers of derivatives, highlighted in such events as the Barings collapse, has been matched by an explosion in the sales of retail equity derivative products.

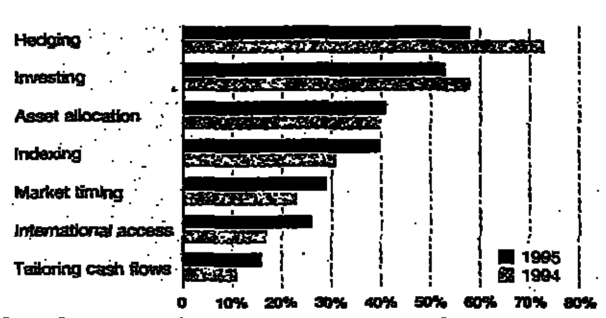
Derivatives houses, trying to drum up demand for their products for asset allocation and hedging, are, at the same time, cautioning about investment in equity derivatives as a *separate asset class.*

And among professional investors, a growing sophistication and understanding of derivatives, rather than *encouraging the use of more* complex instruments, has seen users go "back to basics" seeking "plain vanilla" products.

Ricardo Pascoe, managing director and head of international equities at Bankers Trust International in London, says: "There has never been such an awareness among the public about derivatives, and people are viewing derivatives in a negative sense. Yet, at the same time retail investors are using equity derivatives in larger amounts than ever before. The same person reads the paper in the morning and says they should outlaw derivatives, then, at lunch time, might go over to his building society and buy a Footsie-linked note. It is such a paradox." He adds: "There has been tremendous growth for us in the retail derivatives market. It is a small percentage of our overall business – 10 per cent to 15 per cent – but we can see it growing to a third of our derivatives business in the future."

In the institutional level, Patrick Whalen, managing director in charge of equity derivatives at Morgan Stanley in London, says in the "equification" of Europe, the switch from debt securities to equities, he detects a growing use *of equity futures contracts* in restructuring, transition of portfolios and changes in asset allocation. "The growth in equity markets is really going to come in through the equity derivative products," he maintains.

Reasons institutions use equity derivatives



Source: Greenwich Associates

And a survey of institutional investors by Greenwich Associates confirms that the use of equity derivatives is growing. *The Greenwich, Connecticut*-based consultants found that not only has trading grown by 20 per cent over the past year, but the number of users has grown by the same amount.

Greenwich Associates found that institutions using equity derivatives for investment purposes has declined considerably.

However, their use for enhancing returns, locking in gains, for example at the year end, and gaining international exposure (such as entering restricted emerging markets) all rose significantly.

Mr Whalen stresses that the use of equity derivatives as a tool to help execute investment strategies should not be confused with investment in equity derivatives as a separate asset class.

"The concept of an equity derivatives sales person to me *is a bit in error because,* for the most part, these are implementation tools: it is a way of doing your business better, they are for risk management, efficient execution and better implementation. They are not necessarily a separate asset class," he says.

That said, Bankers Trust put their faith in an employee stock ownership scheme (Esop) which it devised in 1993 that uses equity derivatives to engineer asset ownership, in spite of fruitless government attempts to sell the idea of share ownership in privatised companies to employees.

Employees may be reluctant to take up offers of, often heavily discounted, shares when the companies they work for are privatised.

Besides lacking the funds, they may fear what Bankers Trust's Mr Pascoe calls "the double jeopardy issue". "Imagine that you buy shares in the company you work for with a large proportion of your personal savings. If the company ends up having trouble it is possible that you might lose your position and your savings."

During the privatisation of Rhone-Poulenc, the French Treasury's 20 per cent discount on shares offered to employees was widely accepted.

Bankers Trust proposed that instead of dropping the price of the shares, which still exposed the purchasers to potential loss if the market fell, the discount could be used to buy a hedge with the risk transferred to Bankers Trust.

Bankers Trust put a floor *under the share price.* The protection of the capital, guaranteed by Bankers Trust, meant the shares could be used as collateral for a loan.

Mr Pascoe explains: "The employee would pay for one share. Bankers Trust guaranteed that he would get his money back on that one share as well as on nine additional shares. We arranged for a French bank to lend him the money to buy the other nine shares. Again Bankers Trust guaranteed that the value of *the shares would be enough to* repay loan. This meant the French bank did not have to investigate the creditworthiness of each individual."

The cost to the employee was surrendering any increase in the market value on four of the 10 shares. "They end up buying one and getting the economic upside of six, 60 per cent of the upside of 10 and no downside," Mr Pascoe says.

Esops have been used successfully in other privatisations in France. Mr Pascoe does not see their use confined to privatisations but with some $200bn worth of privatisations due over in the next five years worldwide there is potential.

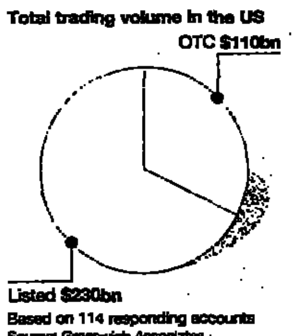
Despite the obvious benefits of such a scheme to the end users there are those in the derivatives business who admit privately that the derivatives industry went through a period where it was driven by product creation rather than by investor need.

It is something of an irony that now that derivatives houses are making earnest efforts to educate end users, those benefiting from the education are going "back to basics".

David Baker, director, equity derivatives Société Générale in London, says: "In the market for over-the-counter (OTC) structured products we are seeing the need for simpler products. The demand for something with bells and whistles has become smaller. When people do these trades they tend to be less complicated. People realise that you can have the same economic effect through a simpler overlay of options so there is no need to use complicated options."

Equity derivatives

Total trading volume in the US



Based on 114 responding accounts
Source: Greenwich Associates

■ **Credit derivatives:** by Antonia Sharpe

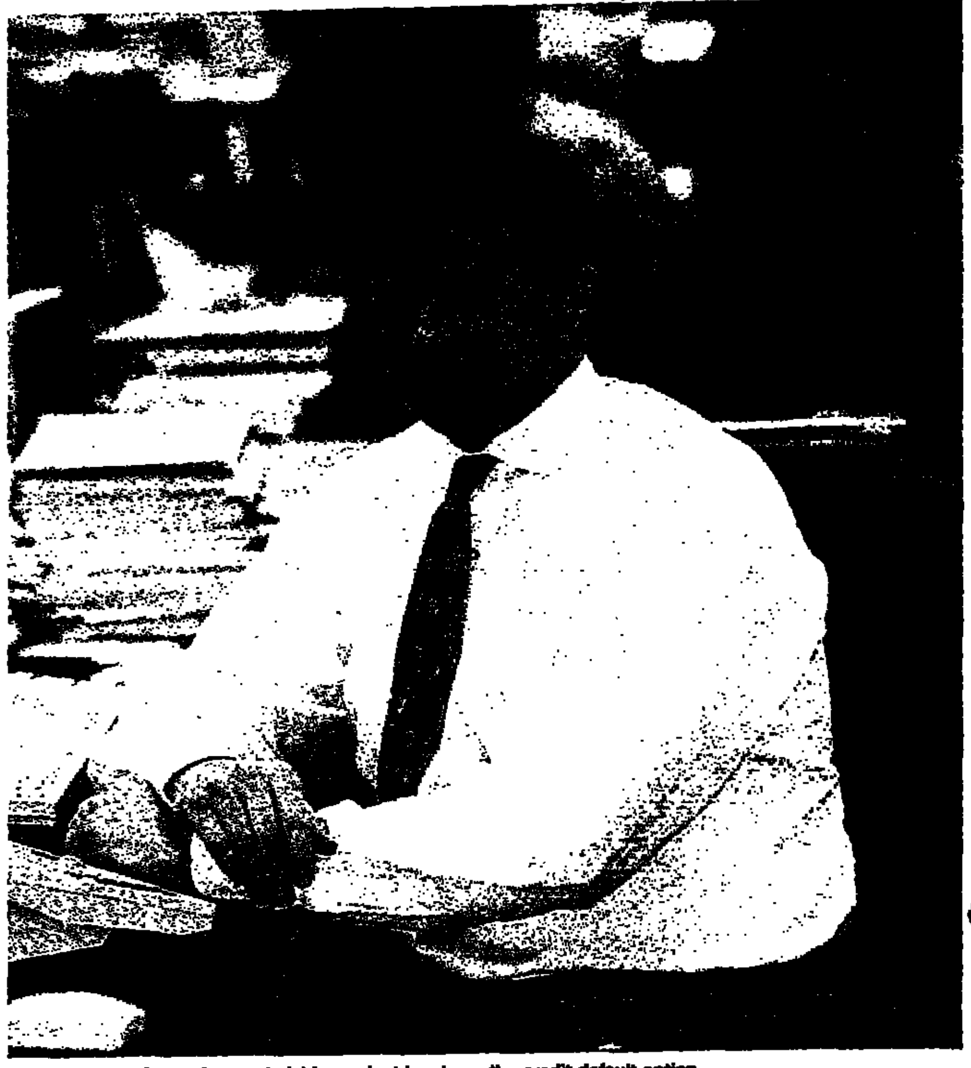
Latest tool to manage risks

This product is heading for the same degree of growth as interest-rate derivatives

As growth in the derivatives market slows and competition becomes more intense, banks are under pressure to develop new products to stay ahead of their rivals. Over the past 12 to 18 months, one of the latest innovations attracting attention is credit derivatives.

The origins of credit derivatives lie with the banks themselves, which devised them as a tool to manage their own credit risks. It has been a logical step to market the products *to their clients.*

Martin Kannengieser, vice-president in credit derivatives at Credit Suisse Financial Products in London, says that although credit derivatives encompass a wide variety of products, the most viable has been the credit default option.



Martin Kannengieser: the most viable product has been the credit default option

This option protects the buyer against the default of a specific corporate or sovereign credit or credits. The life of the option can be for one month or for 10 years, though the average maturity is usually between three and five years.

For example, such an option might be taken out by a company which expects to be paid $20m in three years' time when it completes a project in a foreign country. However, since the country in question has a patchy record on payments it wants insurance in the event of a default.

The company taking out the option will pay an annual or semi-annual payment to the bank which has structured the option. In the event of a default, or a breach of other criteria agreed at the start of the option, the company will receive a payment.

The bank arranging the option will use outstanding bonds issued by the country concerned as a benchmark for setting the payment which will be made by the company. However, since the bank will be hedging its own position by issuing bonds of a similar amount to investors, the company will have to pay a premium to the yield on the outstanding bonds to attract buyers for the bonds backing the transaction.

In the event of a default, there are various ways in which a payment can be made. Mr Kannengieser says some contracts lead to a payment of 100 per cent of the notional amount though the cost of such an option will be higher than one which pays out only *70 per cent, for example.*

Another structure which is often used is based on the post-default reference price of a reference security, and the payout *would be equal to the difference* between par and the reference price. This type of option is usually cheaper than an option with a fixed payout.

It is also possible for the buyer of the option to give the bank the rights to the contract so that it can recover monies through the courts. Such an agreement would also lower the cost of the option.

In the case of banks using the options as a risk management tool, Mr Kannengieser says one of the main benefits of the product is that it allows banks to stay within their internal credit limits for specific countries, counterparties and credit ratings.

Latin America or other emerging markets usually spring to mind when bankers talk about excessive credit exposure and many transactions using credit derivatives are aimed at such credits. However, they can also be applied to loans made to borrowers which are generally thought unlikely to default.

"Credit derivatives can be used to help banks purchase credit lines," says Mr Kannengieser. For example, if a bank has reached the credit limit set internally for a UK or a Belgian company, it would not be able to make fresh loans or other derivative transactions. By denying its client it could put their banking relationship at risk.

To get round this problem, the bank can take out an option protecting itself against a possible default by the borrower, which has the end result of freeing a new line of credit.

Credit derivatives can also be used to help banks use credit lines which are not taken up by clients due to the lack of a relationship. It is quite usual that banks' credit lines are more diversified than their credit exposure.

For example, a German bank might have heavy exposure to German companies but very little to French companies despite having credit lines in place to lend to such borrowers. It can take out an option which would give it the economic effect of lending to a French company. Similarly, if a bank feels that too many of its loans have the same maturity, it can use credit derivatives to create a maturity profile which is more balanced.

It is believed that the decline in the quality of the Japanese banking system has led several international lending institutions to consider credit derivatives as a way to reduce their exposure to Japan.

Although credit derivatives are a relatively new product, the profit margins on them are already being eroded by the stiff competition among banks. *In addition, banks are in com*petition with insurance companies which offer credit insurance and with government export agencies which effectively guarantee most of the payment due on a specific project.

Nevertheless, banks are keen to participate in this market because of its potential to grow. Dipak Rastogi, head of global derivatives at Citicorp, says the inefficiency of pricing credit – because lending institutions have differing views on the same credit – makes this a perfect area for derivatives.

"Credit is a large risk in every economy since each commercial transaction has a credit component unless it is settled by cash," he says.

The notional amount of credit derivative transactions ranges between $5m and $20m because of the specific nature of the market. Virtually all the products are designed for end-users so there is no meaningful trading or liquidity.

"It is a very customised market but terms are becoming standardised," says Pat Britt, head of structured swaps at Prebon Yamane, an American inter-dealer broker which specialises in derivative products.

However, in the same way that interest-rate derivatives have grown over the last decade from a niche market to a huge trading market, all the *signs are that credit deriva*tives are heading in the same direction. "In one year we will have made a quantum leap," says Mr Britt.

■ **Currency options:** by Graham Bowley

New breed of exotics thrives

Volatility has made it necessary for banks to develop more creative ideas

Events on the foreign currency exchanges this year have combined to trigger rapid growth in the "exotic" over-the-counter currency options market.

The US dollar's rapid decline to new post-war lows against the Japanese yen earlier this year and the tensions in September surrounding Europe's progress towards a single currency, were among the main reasons why users turned to more sophisticated currency options products for greater protection against increased uncertainty and volatility on the currency markets.

While the use of standard "vanilla" *products has contin*ued to grow steadily, the greater flexibility and ease of use of exotic options, which are tailored more closely to customers' needs than the standard over-the-counter products, has meant that vanilla products have been outstripped by exotics.

And events have been so dramatic that this year has seen especially rapid growth in a new breed of more structured exotic instruments which combine exotic options as well as vanilla *or cash instruments.*

"Volatility has created the need for banks to come up with more creative and tailored ideas," said Sara Sullivan, head of foreign exchange options marketing for Europe at Chase Manhattan Bank in London. "Demand from customers has been much stronger this year for exotic options – they are looking for alternative and cheaper solutions for coping with uncertainty and volatility," she said.

The first currency options were traded in the US in December 1982. Their use grew throughout the 1980s, largely because of the greater flexibility they offered compared with the underlying cash markets.

For the first few years standard over-the-counter vanilla options were used almost exclusively. But by the end of the 1980s users started to turn to the more exotic options. The use of exotics accelerated rapidly in the early 1990s, helped not least by events such as the 1992 and 1993 crises in the European exchange rate mechanism, which triggered enormous volatility in currency markets. On some estimates, exotic currency options now account for between 10-15 per cent of overall OTC currency options trade.

Some of the most popular exotic options used include:

■ Average rate options, the settlement of which involve an average exchange rate rather than a single spot rate;

■ Barriers, which have become especially widely used;

■ Binary or digital options, which involves discontinuous pay-outs; and

■ Basket options which collect together a number of currencies into one basket and which rely on correlation between put and call currencies.

Barrier options have become an especially popular tool for managing foreign exchange risk. They now account, on some estimates, for around 10 per cent of all currency option business. This growing interest in barriers contrasts with falling demand for aggressively leveraged products.

There are four basic types of barrier options – calls and puts, each with either a knock-out or knock-in feature.

A knock-in barrier *option* pays nothing at expiry unless it is first "activated" as a result of the underlying exchange rate reaching a certain *pre-determined level (the* barrier). A knock-out option, on the other hand, begins life as a standard option but is "killed off" if the underlying exchange rate touches the barrier. Because of their uncertain life, barrier options are generally much cheaper than conventional options.

But the move to even more highly structured products this year has seen the increasing use of new types of hedging and trading instruments.

One of the most popular has been the so-called "forward extra", which is used to hedge underlying cash exposures. It is a combination of a vanilla option and a reverse knock-in *barrier* option. Another is the "range binary", which is a derivative of the binary option family and which is generally used as a trading instrument, although it can also have hedging applications when used with an option.

John Wareham, head of global foreign exchange marketing at Merrill Lynch in London, agrees with the view that the currency options market is now characterised by increasing complexity.

He thinks that trading volumes overall reached a peak two years ago. While speculation on the rise or fall of the yen this year has led to some extremely large options trades that have had a *profound* impact on the underlying cash market, activity overall has declined in the absence of events as cataclysmic as the ERM crises.

In addition, profitability of the more exotic options has declined as the technology *underlying them has become* more widely available and more banks have been able to offer the new products to customers. Those instruments *considered "exotic" only* a few years ago have in time become standard "vanilla" products, freely available in liquid secondary markets.

But this decline in profitability and the lack of growth in the market as a whole has meant that banks have looked to increasingly complicated products, which offer customers even more precise hedges, as a means of boosting their business.

"There has been a general rise in the level of complexity but it is becoming increasingly difficult to take it any further," Mr Wareham said.

For Mr Wareham, perhaps the most important innovation over the past 12 months has been the introduction of exotic options tied to emerging market currencies.

While the first currency *options were traded on* exchanges, most of the subsequent growth in the market since the early 1980s has been in over-the-counter products – to such an extent that the OTC market now eclipses the exchange traded market.

There has, however, been attempts recently to breathe new life into the trading of currency options on exchanges. Last year, the Philadelphia Stock Exchange, the world's largest currency options exchange, began its United *Currency Options Market* in an attempt to bring together the benefits of listed exchange trading with the advantages of over-the-counter products, which are customised to meet a user's particular needs.

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CASE STUDY **Malaysia**

Step closer to becoming a well-rounded market

The new Kuala Lumpur Options and Financial Futures Exchange (Kloffe), to be launched next month, will bring Malaysia a step closer to its ambition of becoming a leading financial centre in south-east Asia.

Undaunted by the Barings debacle in neighbouring Singapore earlier this year and the bad press and law suits surrounding derivatives worldwide, Malaysia is pressing ahead, hoping that the long-planned derivatives exchange will boost the appeal of Malaysia's markets and attract more international investors.

"Malaysia has seen the growth in the derivatives markets in other parts of the world and the substantial development of its own capital markets, and decided it needed a derivatives industry to be a well-rounded market," says John Duggan, Kloffe's chief operating officer. The exchange will open with a futures contract on the Kuala Lumpur Stock Exchange's Composite Index of 100 capital-weighted stocks, followed next year by equity options.

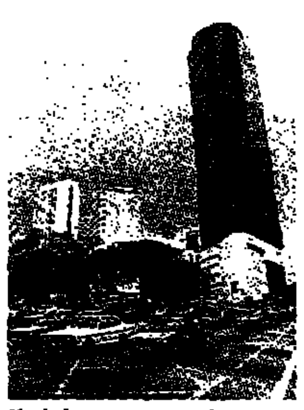
"Having stock index futures, options on the index and options on individual stocks will increase liquidity of the cash market and allow investors to manage their portfolios and their risks better," says Khairil Anuar Abdullah, a director at Malaysia's Securities Commission, which, together with the finance ministry, regulates and supervises the exchange. "Currently, the only way a fund manager can reduce his exposure is to sell his holdings. In the future, derivatives will allow him to go in and out of the market without selling the underlying shares."

Separately, the Malaysia Monetary Exchange (MME) will start trading with a three-month interest rate future based on the three-month Kuala Lumpur inter-bank offered rate. The exchange also plans to launch currency options.

Trading on Kloffe will be screen-based while open-outcry will be used on the MME. Kloffe's trading system is based on that of the German futures exchange DTB. This system is also used by Soffex, the Swiss derivatives exchange. "It has a strong track record," says Mr Duggan. Both exchanges will share one clearing house which they jointly own, the Malaysian Derivatives Clearing House.

"This brings risk management into a single arena and will allow the exchanges to get a better picture of participants' risk exposure," says Mr Duggan. "The Barings incident highlighted the importance of cross-exchange communication." Moreover, he says, having only one clearing centre represents cost savings for members who will not have to set up separate clearing infrastructures and financial guarantees.

For the sake of greater transparency, however, members will be required to run separate trading accounts for their own and their clients' positions. "The segregation of house accounts and client accounts will prevent the co-mingling of different clients' positions and bring additional protection to the market," says Mr Duggan.



Kuala Lumpur: new exchange set to open next month

Kloffe certainly has a lot of things in its favour. For one, Malaysia's seven years of economic growth above 8 per cent have fuelled the explosive expansion of a liquid, diversified stock market – the region's largest in terms of capitalisation. Moreover, Malaysia's prospects to become a regional financial centre have been boosted by a package of wide-ranging capital market reforms, announced by the government in June and aimed at attracting more foreign participants.

"Billions of dollars are looking for a home in south-east Asia," says Mr Duggan. "MME and Kloffe will allow easier entry for newcomers, and more flexibility for those who are already active on the KLSE."

Moreover, "Kloffe will be unique in that it will be the only futures exchange in the Association of South East Asian Nations (Asean) to list an index based on home-grown products, rather than another country's securities," says Lee Siang Chin, managing director of Arab-Malaysian Securities, the securities arm of Malaysia's largest merchant banking group.

Singapore's Simex, for instance, lists derivatives on the Japanese Nikkei stock index and foreign currencies, but does not trade derivatives based on the Singapore dollar or stock index.

Mr Lee expects the creation of Kloffe to boost volume in the underlying stock market. In the absence of a stock index future, several offshore US banks currently trade baskets of stocks on the KLSE in over-the-counter dealings. "If we can bring that business on-shore and on to an official exchange, overall volume should increase."

There is even talk that Kloffe could develop an Asean-Index future, based on a composite of its neighbours' stock markets, or a "Halal" index containing only the shares of Islamically-correct companies. However, "all that is a long way off – we have to learn to walk before we can run," says a Kuala Lumpur banker.

Initially, a large number of trades on Kloffe are expected to come from retail investors taking a gamble on the stock market, attracted by the additional leverage and lower cost outlay of derivatives over cash shares.

"Because of the huge retail penetration of the underlying market, retail could initially make up about two-thirds of volume," says Mr Duggan. "But that will probably shift to the more traditional one-third retail, two-thirds institutional balance as retail investors learn that derivatives can be a risky business and institutionals get more involved in the product."

Some speculative trading could also come from proprietary traders at international investment banks, as well as US-based hedge funds and commodity trading advisers, or CTAs.

"Speculation per se isn't bad – it adds liquidity," says Mr Khairil at the Securities Commission. "If I might paraphrase Keynes: A few bubbles of speculation in a stream of enterprise is to be expected, but not the other way round."

While more widespread hedging of cash positions with derivatives could reduce the trading risks of individual market participants, the volatility of the underlying stock market is unlikely to be significantly dampened by the introduction of the derivatives exchanges.

Conner Middelmann

■ **Commodities:** by James Harding

Farmers face challenge of futures

The pioneers of derivatives are slow to take up the instruments available today

Farmers are a paradoxical bunch. Renowned for being conservative and averse to *change, they work in the riski*est business of all, one that relies on the unpredictable forces of nature.

That combination, cautious instincts in the face of natural risks, made farmers the first users of derivatives.

The tulip bulb bloom in Holland in the 17th century prompted farmers and traders to use options to cope with the volatile markets. More extensively after the 1870s, US cereals farmers developed futures contracts.

In recent years, the appeal of agricultural derivatives should have grown further.

Contracts have been adapted to farmers' needs, just as volatile grain prices and currency movements have made insurance more necessary; they have become more available in exchanges around the world; and they have become increasingly popular with governments keen to reduce expen*sive and cumbersome price* support programmes.

But even though farmers *were the original frontiersmen* of derivatives development, their dogged conservatism has *made them slow to take up the* increasingly sophisticated instruments available today. *Futures and options trading* for the main agricultural commodities from the developed world is *at the fringes* of the soft commodities markets, dominated by tropical goods, like coffee, cocoa and sugar.

Agricultural futures analysts suggest that this will have to change. Bob Moore, agricultural futures manager at Revco Overseas, says volatile grain markets, whether because of low stocks, exposure to currency movements or political interference, will force farmers with decreasing government support to take out some kind of hedge.

"Any farmer who has seen the price movements we have in the last few years and does not consider some form of options trading is living in the dark ages," he says, suggesting that "in the coming years, the options premium will be charged to a farmer's costs rather like seed, fertiliser or *machinery* today."

Futures contracts offer farmers a pretty effective hedge against crop failure.

Contracts mirror the actual performance of a farmer's crop, *generally rising* in value as the spot price falls and vice versa. When the real and futures *price* are taken together, the farmer neither wins nor loses – provided he has matched the *size* of the two deals exactly.

Such use of futures contracts, or alternatively options, which for a small premium give the right to sell at an agreed price, offer insurance. By taking out contracts smaller or bigger than the farmer's underlying business, he can take on risk – only partly insuring his crop or speculating in futures dealing.

Whether farmers seek protection or opportunities for speculation, there are more contracts to choose from and more places to trade.

Although the experimental phase in commodities contracts may have peaked in the early 1990s, there are still new products coming out regularly.

In September, the world's first citrus futures market opened in Valencia, giving the farmers of Spain's annual 5m tonnes of citrus fruit a chance to hedge against movements in the Spanish Navel-Navelina orange market.

Earlier this year, the Chicago Board of Trade launched the Corn Yield Insurance Future, a risk management tool for farmers, grain handlers, and exporters who are vulnerable not just to fluctuations of commodity prices, but also to the size of the crop.

Agricultural commodities also look set to become available in more markets around the world.

Michael Hofmann, chief operations officer of the Deutsche Börse, said that "agricultural subsidies have been falling away for a number of years now, and it's beginning to really have an impact because there's no other mechanism to offset risk". Reforms to the Common Agricultural Policy, decoupling financial support to farmers from production and leaving them with little or no price protection, is fuelling expectations that more European farmers, futures and options laggards in comparison with north American farmers, will deal in derivatives.

At the London Commodity Exchange, where dealing in tropical commodities dwarfs business in the wheat contract, Anthony Rucker, director of operations, says: "The changes to the CAP have removed the certainty of a floor price, creating more need for people to hedge."

In Canada, the government's efforts to reduce the burden of farm payments and at the same time offer a means of price protection has resulted in a pilot programme in cattle futures, effectively passing the responsibility of price insurance for its beef farmers on to the derivatives markets.

And yet, whatever the merits of improved, farmer-specific contracts, increasingly available worldwide and on offer with the government's blessing, derivatives dealing is something farmers will only undertake reluctantly.

The very slow growth in the LCE's grain contracts has led tropicals traders to dismiss UK farmers' interest in futures and options. But enthusiastic LCE traders argue that "farmers have always tended to hold on to the product for too long, not *really seeming to understand* the principles of the market".

■ **Emerging markets:** by Laurie Morse

Flow of capital slows down

In the wake of the Mexican crisis, strategies have become more conservative

The crisis in the Mexican economy and the ensuing volatility of the peso and Mexican stock market shocked emerging market investors to such an extent that the flow of capital from developed economies into emerging markets during the past year has slowed significantly.

Foreign equity investment by *developed countries in* emerging markets dropped to \$39.9bn in 1994, according to a *recent report by Baring Securi*ties, down dramatically from the 1993 record of \$62.4bn.

That trend also flattened interest in emerging market derivatives, although Mexico's *economic crisis did underscore* the value of sophisticated risk management to investors who are committed to diversified global portfolios.

Derivatives, be they over-the-counter or listed as futures and options contracts on a formal exchange, are designed to help money managers separate decisions about funding – interest rates, loan duration, and the like – from decisions about risk management, which involve issues like currency and political stability and credit quality.

In emerging markets, these instruments allow traders and investors to alternatively speculate on, or hedge, credit, interest rate, and foreign exchange risks.

In developed economies the use of derivatives is fairly sophisticated, with corporations and fund managers routinely swapping debt and other financial obligations to match investment goals. In developing countries, however, liquidity in these instruments is thin, and clearing and settlement procedures are not yet up to international standards.

Thus, says Daniel Sivolella, co-head of J P Morgan's global *emerging markets derivatives* group, "emerging markets derivatives are very much a *credit play*". *In other words,* traders in these arenas are taking positions as much on the *prospect of debt repayment, for* example, as on the direction of interest rates.

In the wake of the Mexican reversal, traders say derivatives trading strategies within Latin America, still the largest source of emerging market debt, have become more conservative. Two years ago the most popular derivatives play in Latin countries was a highly leveraged transaction that profited or lost on the movement in value between a Latin debt or equity instrument and its rough offshore equivalent – perhaps a US Treasury bond or US stock index.

Now, after the shock of the Mexican crisis, traders are instead assuming plays based on the relationship between two types of debt with similar credit quality. A spread between two Mexican bonds, for instance, or between Mexican and Argentine bonds, carries far less risk than inter-regional spreads, albeit with a smaller potential reward.

The "tequilla effect" also dampened interest in leveraged derivatives based on emerging Asian markets. However, two countries, Poland and South Africa, are attracting modest *new interest. Investments in* both economies offer portfolio diversity, and interest in South Africa has increased because of new supply availability. Several successful eurorand issues came out in the past quarter, and these debt issues were quickly "swapped" in the derivatives markets. The merger of the commercial and financial rand has greatly aided derivatives development in South Africa, swaps traders say.

> Poland and South Africa are attracting modest interest

The viability of derivatives in emerging markets depends to a large extent on government policies – currency convertibility, tax treatments, and the legal framework, or the enforcement of contracts – all have a significant influence on derivatives use.

Even offshore markets are vulnerable to the vagaries of foreign governments, as the Chicago Mercantile Exchange learned in the 1970s. At that time it had a viable Mexican peso futures contract that provided for physical delivery of pesos. The CME had to stop trading pesos when the Mexican government outlawed peso transfers for futures contract deliveries. Despite that setback, the CME and a number of investment banks believe the potential growth of derivatives use in emerging markets is too great to ignore, and are turning the structural ineffi*ciencies of the local govern*ments to their advantage.

The CME, following the Mex*ican crisis, persuaded the Mexi*can government that a viable hedging instrument was essen*tial to the peso's recovery, and* was granted permission to restart peso futures trading, *with physical delivery, in Chi*cago last April. Volume in that contract is relatively small, but growing steadily.

The exchange is not waiting for similar concessions from authorities in other emerging markets. Next month it will open an entirely new division for trading futures and options on the currencies, equities, and interest rates of dozens of emerging markets countries. It also intends to offer derivatives based on a variety of Latin American Brady bonds.

The CME's strategy is to offer exposure to market movements in these countries while eliminating local market risks. Its Brazilian real futures and options, launched on November 8, are cash settled to avoid delivery complications, and are denominated in US dollars, so US fund managers do not have to incur exchange rate risks.

William Brodsky, the CME's president, has described the exchange's emerging market initiative as a sort of supermarket for financial institutions. He thinks money managers will welcome the opportunity to select exposures to dozens of developing economies while dealing in a familiar environ*ment and avoiding the costs of* establishing operations, or clearing relationships with *each country individually.*

The real contracts will test the robustness of this theory, *since Sao Paulo's fast-growing* futures exchange, the Bolsa de Mercadorias & Futuros, already offers global traders a liquid US dollar/real futures contract.

Investment bankers that deal in over-the-counter derivatives are sceptical that the CME's emerging markets products will attract the necessary liquidity to make them viable. The exchange's futures contracts on developed country currencies, like the D-Mark, are dwarfed by the over-the-counter market, and are fast losing their relevancy.

■ **Retail derivatives:** by Graham Bowley

At the heart of everyday life

Many things which people simply take for granted would not be possible without derivatives

Derivatives have long been used by large multinational companies to manage their risks. But these sophisticated financial instruments have also begun to play an increasingly important role in the everyday lives of ordinary men and women – although many may not yet be completely aware of this fact.

The fixed-rate mortgage would not be possible without the use of derivatives, for *example. Offers by shops of* interest-free finance to buy goods such as cars or washing *machines also rely on deriva*tives.

And individual savers, too, are using these instruments, either directly or through investment funds, as a profitable and guaranteed home for their money.

"Derivatives are at the heart of many things which people simply take for granted in everyday life," said Richard Pratt, director of external affairs at the London International Financial Futures and Options Exchange (Liffe).

Small businesses, too, have begun to use derivatives, *chiefly to protect themselves* against adverse movements in interest rates and exchange rates.

They use instruments such as an interest rate cap, which puts an upper limit on the interest rate a borrower has to pay, an interest rate swap which allows the client to swap his floating interest rate payments for those tied to a fixed interest rate.

Businesses also use exchange rate futures or options which allow them to fix the price of their overseas revenues, so that they do not lose out if the exchange rate moves against them.

Individual investors, too, have begun to use derivatives. On Liffe, equity options are among the most popular instruments for the smaller investor, bought either directly through a broker or indirectly by investing in a fund which deals in these instruments.

"Derivatives are playing an *increasing role for investors* and savers in the retail market," said Richard Bolchover, *director of Close Fund Manage*ment, a company recently set up to manage funds for small investors.

"They are more efficient and cheaper than the underlying *market and you can tailor the* risk and return profile to what the customer actually wants," he said.

Small investors also benefit from the increased use of derivatives by pension funds and other institutional investors in which they have a stake. Potentially, derivatives can enhance the performance of the fund, hence providing a higher return for each individual investor.

"Fund managers in insurance funds, pension funds and unit trusts have been using derivatives for years and their use is on the increase," said Ms Sandy Phillips, head of equity products at Liffe.

*The advantage for an invest*ment fund of investing in derivatives rather than in the underlying stock is that the derivatives market is larger and more liquid.

This makes asset allocation between stocks cheaper and easier. It also means that the funds, which are often very large, do not move the market against them when they decide to change their asset allocation.

In the UK, high-street banks have been active in promoting fixed-interest rate products, motivated in large part by the difficulties inflicted by high interest rates at the end of the last decade.

These high-interest rates put both borrowers – and hence banks' business with the clients – at risk. Banks think that many small business failures could have been avoided if derivative-based techniques had been in place.

A fairly long-standing com*plaint by small companies* was that often the only financing available to them was floating-*rate finance, which meant that* in times of recession they were hit by a double blow – not only *by a sharp slowdown in the* demand for their goods and services but also by the high *interest rates which often pre*vail in recession.

But banks are now able to offer their customers financing that has a fixed interest rate. Their ability to do so has been enhanced to a large extent by their increasing use of short-term interest rate futures and options markets for medium-term financing, and, for longer-term financing, of government bond *futures and* options.

One of the most important *developments in the deriva*tives industry in recent years, and one which has made the provision of fixed-rate finance possible, is the introduction and growth of short-term interest rate futures and options markets, such as the short sterling market on Liffe in London.

These markets are useful because they allow an investor to offset the effects of interest rate movements on cash market holdings with price changes in the futures and options.

In this way, buyers of short-term interest rate contracts can effectively fix the interest rate at which they borrow or lend money.

For example, a company may have a sum of money it wishes to invest but it thinks that interest rates are set to fall. The company could buy a short sterling contract which expires in three months. If, by that time, interest rates have not fallen, then the company will have lost nothing. If, on the other hand, rates have *declined*, the company will be faced with a lower investment rate but the price of the futures contract will have risen to offset this.

Another example is a company *which wants to* borrow some money but which thinks that interest rates are set to *rise*. The company could sell short sterling futures today. If rates do rise then borrowing costs would also be higher but the company could now buy futures back at a cheaper price and use *the profit to offset the* increased interest cost.

If this is a bank or a building society, it can then pass the fixed rate achieved in this way on to their customers. It may also be a car manufacturer who offers potential buyers interest-free finance, which in effect means it takes on a fixed interest liability which it can then hedge in the short sterling market.

In the UK, Liffe's short-sterling market is at the heart of the *provision* of fixed-rate mortgages. A building society, for example, will seek to off-load the fixed-rate liability it takes on when it provides such a mortgage for a customer by swapping it for a floating-rate liability from a larger bank. The bank will, in turn, use the short-sterling market to hedge its own exposure to interest rates while it holds the fixed-rate liability.

Since it was set up in 1982, the short-sterling market has grown rapidly – a sign that derivatives are being used more and more widely for hedging purposes in the retail market. While only around 42,000 contracts were traded in its first year, by the 1994 this had grown to more than 16m contracts, representing a daily turnover of around £40bn.

■ **New products:** by Richard Irving

A licence for fresh markets

Specialists are aiming to engineer a whole range of potentially lucrative products

Futures and options on fishing rights, endangered species and even permits aimed at combating the threat of global warming could be among a welter of new environmental derivative products reaching the world's trading floors before the end of the century.

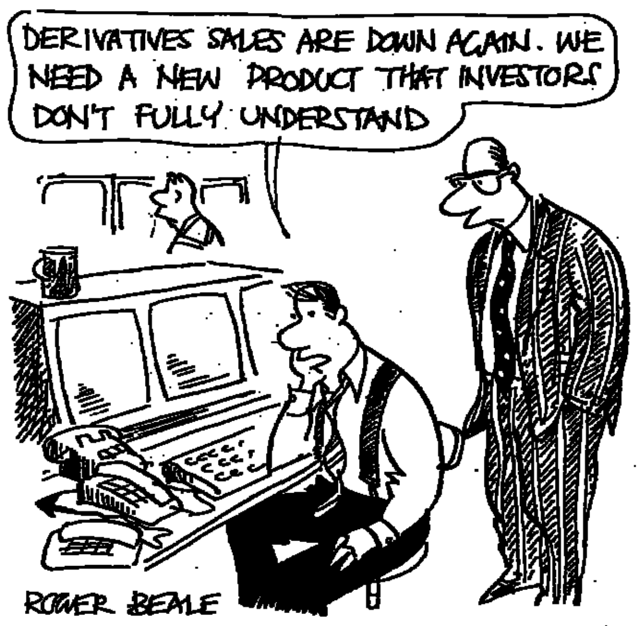
According to Richard Sandor, chairman and chief executive of Centre Financial Products, the New York-based derivatives boutique, Wall Street specialists are looking to apply their financial engineering know-how to a whole range of potentially lucrative markets, from pollution control to crop yield insurance.

Mr Sandor, a former director of the Chicago Board of Trade (CBoT) and a founding father of the financial derivatives industry, says it is only a matter of time before atmospheric pollutants such as carbon dioxide are commoditised and honed into freely-tradeable instruments. At least one leading US bank is looking at a way to create a two-way market in pollution licences and more are expected to follow suit as further amendments to the US Clean Air Act (1990)) are introduced.

Already the US Environmental Protection Agency is pioneering a programme aimed at reducing sulphur dioxide emissions, the principal pollutant in acid rain, by up to 10m tonnes a year. Together with the CBoT, the agency runs a sealed auction each year where power utilities can trade licences granting them certain emission rights on a spot, six- and seven-year forward basis. The latest auction, held this March, raised more than $22m and garnered bids for licences from around 140 industry participants.

A similar market in carbon dioxide emission licences, backed by a global accord and based in each of the Asian, European and North American time zones, is being considered by a United Nations environmental working party and could be up and running by early 1998. Although little exists in the way of infrastructure, the potential for a burgeoning swaps market, where, for example, a user might want to pay out a cash flow linked to an oxygen-producing asset and receive a cash flow linked to a securitised carbon dioxide emission licence, is massive, Mr Sandor says.

"We've already shown that a market-based psychology can re-invent environmental regulation. If it can unambiguously stop acid rain in its tracks, then it can help combat the threat of global warming," he says.



Commoditisation of fishing rights and land to support endangered species could follow if the concept proves successful.

Mr Sandor has a remarkable gift for turning potential derivative applications into multi-billion dollar markets. As well as pioneering futures and options on interest rates and currencies in the late 1970s and early 80s he continues to play a pivotal role in encouraging closer links between the capital markets and the insurance industry.

Supporters believe trade in insurance futures and options contracts has the potential to become the single largest derivatives market of them all. In particular, the catastrophe insurance sector is desperately short of capital and unable to generate enough capacity to write new business – the loss potential from just one earthquake or hurricane, for example, could stretch the resources of the US's $200bn insurance pool to breaking point.

Moreover, investment bankers stand ready to encourage portfolio managers to accept insurance derivatives as a means to diversify away from the more traditional capital markets: "The good news is that insurance derivatives represent a totally new asset class," says Marcus Everard, managing director of Crédit Suisse Financial Products in London. "The bad news is, that they represent a totally new asset class and thus have limited appeal to what is traditionally a conservative end of the market." But, he adds, while there is still a good deal more talk than action, much of the hype surrounding the launch of insurance derivatives has died down. "Expectations are at least more realistic now," he says.

Perplexed by the low trading volumes passing through the floor and convinced that the devil lies in the detail, the CBoT recently launched a new series of options on nine catastrophe loss indices compiled by Property Claim Services, a leading supplier of loss estimate data. The indices, which are more fungible with existing over-the-counter products, cover US exposures nationally, regionally (eastern, north-eastern, south-eastern, mid-western and western) and in select catastrophe-prone states (Florida, Texas and California) and aim to capture more than double the catastrophe losses pooled in data used in earlier contracts.

As part of the overhaul, the exchange also extended the development period of the contracts from three months to either six or 12 months to capture slower-developing losses such as those arising from last year's $7bn earthquake in Northridge California, which killed 60 people and damaged more than 40,000 homes.

But despite all its efforts, under 4,000 catastrophe insurance options have traded this year – fewer than a fraction of the daily volumes its flagship treasury long-bond options contract might trade in an hour.

In the UK, the situation is even worse. Bankers say business is stymied by the lack of an exchange-traded contract off which to price and hedge privately negotiated deals. According to one senior reinsurance broker, one of the largest banks in the market has only written one structured deal in the three years it has run an office out of London.

Finally, this year an innovative development in the agricultural sector has attracted intrest. When the Canadian government put out to tender a new insurance programme to replace cattle subsidies with a derivatives-based alternative this June, competition to win the mandate was reportedly fierce. Bankers Trust eventually emerged to run the programme, which allows Canadian farmers to not only hedge against swings in cattle prices but also against fluctuations in the Canadian dollar exchange rate, and promises similar price insurance contracts on other commodities if the pilot proves successful.

■ **Managed futures:** by Henry Harington

Testing times for fund managers

The volatility in markets is causing a reassessment of investment strategies

Few things in life are predictable but investors in managed futures funds have, over the years, become used to the idea that they do well when stock and bond markets are not faring well. And they do not do so well when stock and bond markets are thriving.

But this conventional wisdom is being tested. According to Nicola Meaden, managing director of TASS Management Limited in London which tracks the performance of these funds that invest in derivative products, "last year was the first year where every market lost money. We saw pretty awful to dreadful results".

And this year, "after doing fantastically well in the first quarter, by shorting the dollar, managed fund managers have not done so well for the rest of the year", she says.

This uneven performance is borne out by Frank Simons who runs Simons Capital from Coral Spring in Florida. He says that his fund's performance is 137 per cent up to the end of October. The gains came in two spurts and relied on currency and interest rate shifts rather than a uniform investment strategy.

However, Mr Simons stresses he was in a good position to take advantage of the sea changes when they came. "I made adjustments to my portfolio in February which placed me well for the rise of the yen and the decline of the dollar. It was luck later in the year when I was also positioned with a large proportion of futures contracts."

He says his strategies involving US treasuries, UK gilts and the German Bund have also done well. "If you get two moves in currency in a year that is a tremendous trading opportunity. I caught the good moves on currency and interest rates," he concludes.

Ms Meaden says managers who relied on "the black box" – trades driven by computer programmes – have tended to do well as the trades are triggered by market events. Those whose strategies are macro-based, relying on fundamental economic indicators, did not do so well at the beginning of the year when the yen rose, but were better placed in August when the dollar rose.

But the volatility of the past two years is bringing into question the traditional link between managed futures fund performance and that of stock and bond markets. "Managed futures have benefited historically from the correlation with stock and bonds markets. The rise of stocks and bonds in the past has not boded well for managed futures while a fall in these markets has usually been a good sign for managed funds," says Ms Meaden

She adds: "Some investors do not look for a correlation but take a punt. They want something a bit racy." But some are more methodical, especially at the institutional level. Some people want to be able to rely on a low correlation.

Kenneth Jakubzak, president of KMJ Capital Management in Chicago, says he has had a good year on the back of currency and interest rate movements. From January to September this year his diversified fund was the top performer among funds with more than $10m under management.

He believes that the low correlation between bond and stock markets and managed futures funds still holds and sees managed futures as an addition to any investment portfolio.

Mr Jakubzak notes, however, that volatility was higher than five years ago and that investors are looking for curtailed volatility. "They are looking for a smooth ride even if that means a smaller return." He believes that trend will continue.

"We are working hard at reducing volatility." He admits that this will make him more conservative but adds that it means they are adapting to their clients' wishes.


Nicola Meaden: "we saw pretty awful results last year"

But Ms Meaden says in 1981 academic research suggested that it made sense to allocate between 5 per cent and 20 per cent to managed futures because of the correlation with the stock and bond markets.

"If the same study were done today you would be unlikely to get the same result. In those days at least two thirds of the futures transactions were commodity-based. Now it is financial futures that are in the majority," she says.

There is a range of new variables which may be diffusing the effects of the traditional correlation and, incrementally, forcing change on the market.

Globalisation has meant more markets, more products and more exchanges. The process has been accelerated by more and greater access to financial information and the deregulation of existing markets and indeed the increase in the number of people trading derivatives. Ms Meaden says the number of commodity trading advisers (CTAs) has risen fivefold in the past 14 years.

In 1981, the personal computer was in its infancy. Today it is ubiquitous in the development of investment strategies and in trading.

But Mr Simons sees a swing back to commodities. "In the past three or four years I have concentrated on financial futures but recently I have been trading raw commodities which I have not traded for eight years. We have done research and the simulations are spectacular. To my disbelief diversification into commodity markets offers the same risk factors but a profit potential of 20 per cent. Although 95 per cent of profits this year come from currency and interest rates I am very excited to be working with copper, cotton and crude."

Along with the market changes the managed futures industry has suffered some setbacks. Last year. TASS Management calculates that funds shrank by about $1bn out of the $20bn managed.

Managers feel frustrated by the loss of about 5 per cent of the funds they manage. The withdrawals, they maintain, were no reflection on the performance of the funds. The decisions were taken for political or cosmetic reasons.

Virginia Retirement System (VRS) withdrew from managed futures investments when a change from a Democrat to a Republican administration saw a clean sweep which included a change in investment objectives.

Eastman Kodak has withdrawn its long-standing investments in managed futures. The view among managed futures managers is that the company wished to distance itself from the losses publicised in such financial disasters attributed to derivatives use.

Industry sources stress that most of the bad publicity relating to derivatives involved customised or over-the-counter (OTC) products. Managed futures managers stock in trade are the better regulated and liquid exchange traded instruments.

Mr Simons does not consider VRS and other departures as negative, "Managed futures did work for them. The change reflects a change in the political administration rather than economic factors."

■ **OTC interest-rate products** by Richard Lapper

New generation takes over

Two developments are helping money managers to define the risks they want to trade

Growth in the over-the-counter derivatives market may be slowing as corporate buyers and dealers reassess their exposures in the wake of the highly publicised losses of the past three years.

However, the once exotic innovations of the early 1990s – the "quanto swap" and "path dependent options" – are gradually becoming an established feature of international financial markets, as buyers increasingly turn to the new techniques. With interest rates lower than expected, some end-users are using the techniques to enhance returns. But, according to dealers, many more are turning to complex structures as a way of reducing the cost of their protection.

"People are much less willing to take aggressive trading views," says James Orbell, director Credit Suisse Financial Products. "They are using derivatives to protect themselves and reduce the cost of defensive strategies. As a general rule clients hate paying premiums for options and they use this technology to reduce the costs."

Two developments in the early 1990s have paved the way for a new generation of interest rate and money market products, which give investors and money managers a greater ability to define more accurately the risks they want to trade.

First, an increase in accessible and affordable computer power has made it easier for dealers to design complex products and to protect their own exposures. Cheaper computer hardware and faster software is identified by dealers as a crucial element in the emergence of so-called path dependent and barrier option products, which offer a return or protection based on the direction in which a particular asset or market moves. Computer power not only allows dealers to calculate numbers more quickly to develop new products, it also enables them to monitor their own exposures more efficiently and, ultimately, to use their capital more effectively.

"Two to three years ago it could take all weekend to produce a risk report on a portfolio," says Jerry Del Missier, head of interest rate and currency derivatives in Europe at Bankers Trust. "You can now carry out these calculations much more quickly."

Second, methodologies for pricing the risks linked to correlation between different kinds of financial instruments have become much more sophisticated. For example, these new techniques are an important element in the emergence of the quanto swap, a product which can give investors a return based on the performance of a bond or financial instrument denominated in one currency and pay them in another currency.

The combination of these two developments has made it easier to "handle the risk associated with those kind of products", says Mr Orbell. "Many more people have experience of running these systems. More and more people have done these transactions and feel comfortable with them."

After the highly publicised losses this year, the use of these new techniques and products for speculative purposes has become less popular. Demand for "path dependent" products offering highly geared plays on market movements – of the kind which resulted in heavy losses for Procter & Gamble, for example – has fallen sharply. But with short-term interest rates lower than expected, some investors and money market managers are beginning to look at ways to enhance yields.

Mr Del Missier says this explains an increase in demand for so-called "you choose" trades. In these cases investors forecast a range of interest rates – 50 basis points above and 50 basis points below Libor, for example – for the length of their intended investment. If the London interbank offered rate (Libor) remains within this range interest is accrued at a higher than market rate. By contrast, for the days in which Libor falls outside this range no interest is accrued. An additional feature of the product allows buyers to reset terms every three months.

Traditional buyers of floating rate products, such as money market managers, are accounting for the bulk of demand for such products, says Mr Del Missier.

The more significant trend, though, is the way in which products based on path dependent and barrier options techniques are being used as a means of reducing the cost of protection. Because of the trend in short-term interest rates, money managers have faced relatively high opportunity costs when they choose to shift their liabilities from floating to fixed rates.

At the same time, the increase in levels of volatility in international money and bond markets means that caps limiting floating interest rates are relatively expensive.

As a result, many end-users are opting for caps or barriers which they pay for only if they are used. Alternatively, some caps are being priced further "out of the money" or are structured to disappear if interest rates rise beyond a certain specified level, or if other economic variables – such as currency rates – vary beyond preset limits. "The point is that protection can be structured to fit a specific risk profile," explains Mr Del Missier.

Ian Garrison, head of UK derivatives marketing at Société Générale, says that interest rate caps with barrier options can be cheaper and provide more cost-effective protection.

Flexible caps with a limited life are also popular. These products can be attractive for end-users who believe that interest rates will rise at some stage over a given period but will not remain at high levels for long.

For example, end-users can buy a cap which comes into effect only on the first few occasions that interest rates rise above a pre-determined level.

"It is not suitable if rate rises prove to be sustained but it can be between a third and two thirds of the price of a standard vanilla option."

James Orbell: "people are much less willing to take aggressive trading views"

■ **Hedge funds:** by Christine Moir

A drift towards experience

After sparkling performances, hedge funds were hit by the bloodbath in global bond markets

It happens all the time in the retail financial market. Unit trust prices rise and rise until finally they take the public's fancy. Investors pile in just as prices peak. They then sit on their hands while prices fall only to head for the exits once their losses have begun to hurt. Shortly afterwards, prices start going up again.

Americans have a name for it: "impatient investor" syndrome. And it seems that even the most sophisticated corners of the investment market are not immune from it.

Hedge funds, which take large positions in currency, bond and equity markets using derivatives to hedge and to enhance their returns, produced sparkling performances in the early 1990s. George Soros, the Hungarian financier who runs the largest hedge fund of all, posted returns of 29.6 per cent, 53.4 per cent, 68.6 per cent and 63.2 per cent between 1990 and 1993.

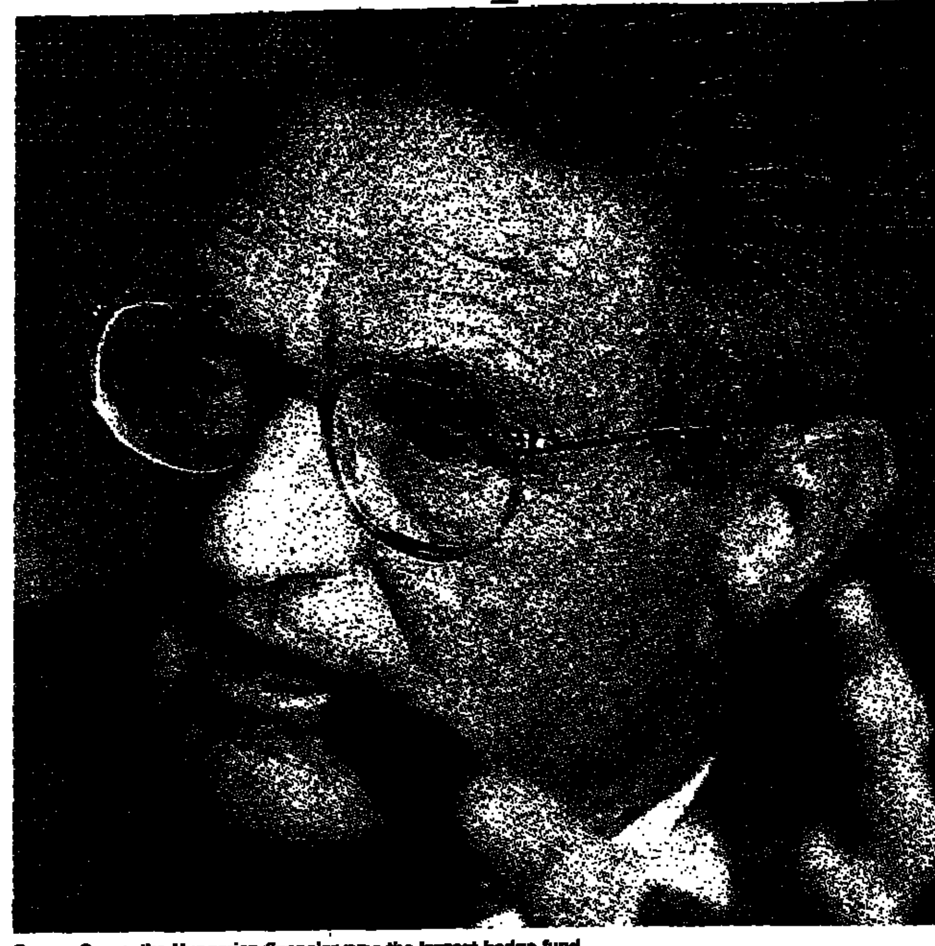
Pension funds, Swiss bank clients, institutions and professional investors were drawn to the magnet. Michael Goldman, of Momentum Asset Management, confirms that money poured in through the doors in 1993 and the beginning of 1994. "One of our funds quadrupled in size in January 1994."

Next month came the bloodbath in the global bond markets and the hedge funds paid twice over. The losses were bad enough (Mr Soros was said to have lost $600m on Valentine's Day alone). What followed was worse. Investors lost their nerve and began to withdraw their money.

London-based TASS Management, which monitors the performance of hedge funds worldwide, estimates that by the middle of this year funds under management had shrunk by about $15bn from their end-1993 peak of $80bn.

Last month, Michael Steinhardt, a hedge fund manager well known for his aggressiveness, suddenly quit at the age of 54. Mr Steinhardt's compound annual performance from 1968 to 1993 had been an enviable 27 per cent. But in 1994 he plunged for the first time into the international bond markets and lost $1bn. "The word that springs to mind is hubris," he said. "I didn't have the depth of experience I had in other areas."

Competitors put Mr Steinhardt's departure down to his emotional temperament but the hedge fund industry as a whole has been scarred by the experience of 1994. Performances may have recovered this year – TASS reports that the large, macrofunds have returned plus 16 per cent in the first nine months compared with minus 18 per cent in 1994 – but investors no longer believe that managers can devise effective strategies to shield them from losses if they take huge punts on the direction of markets.

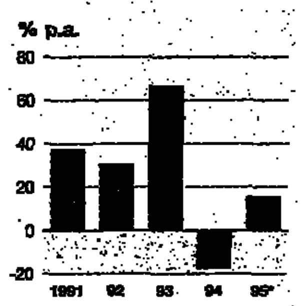


George Soros: the Hungarian financier runs the largest hedge fund

Mr Goldman believes there is "a drift away from those who think they know what the yen is going to do to specialists who know a particular sector inside out". The specialists themselves seem to be adopting more conservative strategies, going long on individual stocks which they believe will perform differently from the rest of the market while protecting themselves against market falls with a permanent "put" on the index.

These "back-to-basics" strategies are further anchored to the real world by being, in the main, event-driven. A specialist in bank stocks would be activated when, for instance, a bout of merger mania seemed likely. In short, behaving as pure arbitrageurs.

Performance of global macro hedge funds



* To end of September
Source: TASS Management

This preference has also accelerated what Mr Goldman calls "a drift to experience". Apart from the big operators who wrongly bet on which way interest rates or currencies would go, the other casualties of 1994 were mainly newcomers, sucked in during the heady days of 1992 and 1993 only to come unstuck in the turbulent markets in 1994.

This has, of course, played into the hands of established operators such as Mr Soros and Julian Robertson, who runs the doyen of US hedge funds, the Tiger Fund. Mr Soros's Quantum Fund performed poorly by its standards in 1994, but at least it returned a positive 3.9 per cent. While it did suffer net redemptions that year, by March of this year new contributions were again measurable and growth has now resumed.

Mr Robertson's Tiger Fund has also returned to a net new money position since early this year. Tiger's attraction for cautious investors is that it is run as the antithesis of a solo brilliant stock picker. Joseph Nicholas, president of the Chicago-based Hedge Fund Research company, says "with 180-odd staff Tiger is a full-scale corporation. Its approach is institutionalised".

Once-bitten investors, Mr Joseph believes, are looking for transparency, for strategies which are intelligible and replicable. An institution has the same requirements.

Some experts in the field, however, believe that hedge fund managers must resist becoming too institutionalised and, especially, too large. One of the reasons for the bond market losses of the macro funds, it is argued, is that they took positions which were too large to hedge.

The argument that size is a barrier to agile trading seems to have been accepted by some of the fund managers themselves. In June, Bruce Covner, chairman of Caxton Corporation, one of the largest hedge fund managers, returned two-thirds of his $1.8bn under management back to investors. Seven months earlier Paul Tudor Jones, of Tudor Investments, had returned $670m, or one-third of the total he managed.

Where that money will now flow is not easy to see. Emerging markets have their supporters again and the advice of contrarian strategists is being heeded. Before 1994, both of these strategies would have been packaged with some of the fancier forms of hedges. Now, with investors happier with less exciting – and less risky – investments, some think they may prefer to put smaller sums into vanilla-flavoured direct strategies.

■ **Risk management** by Richard Irving

Shock-absorbing models

Banks with risk management systems are developing versions for the commercial market

On January 1 next year, the Bank of England's interpretation of the European Capital Adequacy Directive (Cad) becomes law. For the first time, a leading regulator will offer UK banks an opportunity to use their own state-of-the-art risk management systems to calculate the capital they must put aside to support foreign exchange and securities dealings.

It is unlikely to be the last. The latest consultative proposals to be published by the Basle Committee on Banking Supervision, which intends to implement a stricter regulatory regime in early 1997, also suggests there will be a place, albeit a strictly limited one, for similar in-house models.

But although risk managers have fought long and hard to win regulatory backing, the victory appears to be something of a hollow one. According to one Bank of England official, only a handful of banks are seeking permission to use internal value-at-risk models as part of the Cad process. The reality for most UK banks is that the more traditional "building-block" approach, which relies on allocating capital separately for different business lines, will ultimately require a smaller capital charge and therefore prove a cheaper alternative.

Nevertheless, the industry fights on. Risk management is one of the last great frontiers in global investment banking, not least because there has been a shift in emphasis towards risk-adjusted performance measurement but also because ever-more stringent regulatory requirements are making capital scarcer. Moreover, the use of risk analysis models is rapidly advancing way beyond the point where they are being used to fine-tune capital adequacy requirements. At the very least, banks use them to estimate the potential losses (or value-at-risk) they face in their day-to-day operations.

By adjusting the range of data that is fed into a model, a bank can cushion itself to a greater or lesser extent against severe shocks such as the global bond market shake-out of February 1994 or the 1987 stock market crash.

But the real potential lies elsewhere. Those with more sophisticated systems are already waking up to their marketing potential and developing user-friendly versions for the commercial market. A good system is an ideal platform from which to launch a whole gamut of risk management services, from securities valuations and risk-adjusted performance measurements to long-term strategic advice.

The frantic pace of activity dates back to J P Morgan's surprise decision to make its own proprietary risk management system, RiskMetrics, public in October 1994. The intention was to show the techniques and historic data it uses daily to estimate risk exposures, set position limits and refine asset allocation strategies. "By providing potential users with a relatively simple tool kit to analyse risk, we hoped to open up a debate on the measurement of market risk and hasten the development of an industry-wide standard," explains a spokesman at J P Morgan's New York headquarters.

The bank's latest version still has its shortcomings – it cannot, for example, generate a value-at-risk exposure for many derivative products including options, (arguably the securities most likely to worry the regulators). Neither can it take into account the influence derivatives now have on underlying cash markets, which lays it open to losses that might arise through basis risk. But the system continues to be successful in doing what it promised to do – encourage rival banks and software houses to use its number-crunching methodology as a base from which to develop a new generation of risk management systems.

Leading the field is Bankers Trust, which recently unveiled its Raroc (Risk-adjusted return on capital) 2020 system. The US investment bank, still trying to extricate itself from an embarrassing legal dispute with a former client over derivatives deals that turned sour, is hoping to rebuild its reputation with the launch of a model which, it says, takes risk management a giant step forward. "Value-at-risk as we currently know it is just a snapshot – a single consolidated number that gives you a backward-looking view of what could happen to your portfolio," says Lee Barba, managing director and head of Bankers Trust's risk information services group. "What risk analysis should really be, is a movie."

Raroc, says Mr Barba, is not just another "black-box" which translates the market risk of portfolio into a simple number reflecting earnings sensitivity. It is a methodology for unbundling, measuring and evaluating risks, and for setting capital requirements to cover those risks. It can help identify the extent to which a portfolio may be diversified and indicate how specific businesses are doing on a risk-adjusted basis, thereby allowing management to adjust the asset and liability mix to properly reflect risk management policies.

Significantly, Raroc 2020 also attempts to capture the market risk associated with derivatives by subjecting them to thousands of potential market moves and allocating a capital charge that would sufficiently cover 99 per cent of all losses generated by them.

But the system does not come cheap. Unlike RiskMetrics, which J P Morgan offered to the market free of charge, a one-off run through Raroc 2020 reportedly costs around $75,000 while on-site licences start at a cool $1m.

Yet, despite the price, the bank reports no shortage of willing takers – it has already signed up three leading US institutional fund managers, including the $12.5bn Chrysler pension fund, a leading international insurer and a European utility. And the potential savings the system can offer look set to encourage more. When Russ Flynn, Chrysler's director of pension fund management, ran the fund's $400m currency exposure through the system, he uncovered a natural hedge which reduced the incremental risk exposure in the portfolio to less than 5 per cent or $20m.

Raroc 2020 is not the definitive word on risk management. While it has made efforts to include derivative instruments within the framework and offers near-endless opportunities for customisation, the model, like all its competitors, still only attempts to capture 99 per cent of the possible losses that might occur in a market shock.

The only solution is to run another model, which puts the portfolio under unusual stresses to try to shake out any potential unexploded bombs, alongside the original risk management system.

PROFILE Fimat

Focus on international horizons

A large, stripey brown sea urchin sits encased in glass in the Paris office of Alain Crosier, the chairman of Fimat. Its dangerous and irregular limbs might well symbolise the risks and irregularities of the derivatives market with which he has to deal every day.

But while most companies would prefer to live a relatively risk-averse life without too many uncertainties, for Fimat and other dealers on the world derivatives markets the more variation the better.

Until now, Fimat certainly seems to have been able to cope rather well with the fluctuations of the past few years, although it is now becoming increasingly difficult as it becomes a bigger operator and has to adjust to a more competitive market at a time of falling volumes.

Created in 1986 by Société Générale, one of the France's largest private sector banks, Fimat was in many ways a response to the development of the Matif, the French financial futures exchange also launched at the same time, and which remains a very important focus for its activities today.

Partly as a mark of the company's relative independence from its only shareholder, it has resisted the move over the past few months by Société Générale to consolidate its dispersed offices around Paris into the gleaming new headquarters tower in La Défense to the west of Paris, which was inaugurated in late October.

Instead, Fimat's focus over the last few years has been on far broader foreign horizons, opening offices around the world. Since turning towards international expansion in 1989, it now has 26 subsidiaries, employs more than 1,100 staff in 16 countries and has membership on 31 different futures exchanges. In the latest wave of expansion due very shortly, it is to start trading index products in Korea and Malaysia, with others in the pipeline.

It seems that its parent company has had every incentive to remain its sole investor, given the performance of its subsidiary. Volumes, market share, staff and membership of exchanges grew consistently between 1989 and 1994. Last year, net income jumped almost threefold from the previous year to FFr79m and total assets stood at FFr7.4bn.

On the other hand, the relationship with its shareholder is clearly not only one-way, since Fimat receives a large proportion of work from Société Générale as a client, which it argues is a purely commercial relationship. "We have to provide them with a competitive service," says Mr Crosier.

However, 1995 has not proved an easy time for brokers. "Volume last year was much more significant than this year," says Mr Crosier. "I can say that 1995 is a crisis year, with a very strong decline in volumes."

To some degree, Fimat's international spread of business has helped it absorb some of the worst impacts of the crisis, with its Asian and US business helping to compensate for a poorer year in the derivatives exchanges in Europe.

It has also been boosted this year with the effects of starting on new exchanges – such as Brazil and Canada – as well as its important acquisition of Brody White, the US commodities broker, finalised towards the end of last year.

All these add-ons mean that Mr Crosier estimated total volumes traded for 1995 will still be up on last year – to about 106m from 92m in 1994. He says there would have been some growth even after stripping out these new activities.

He argues that 1995 represents simply a "cyclical" decline, albeit a powerful one,

> Fimat now has 26 subsidiaries around the world and employs more than 1,100 staff in 16 countries

and partly reflects the inevitable drop after the exceptionally active period of 1994. He adds that there has been some negative impact from recent well-publicised problems with derivatives, such as the collapse of Barings and the problems of Orange County in California. "Clients are using derivatives less frequently than before. They are afraid," he says.

The difficulties have not left Fimat untouched. It closed its currency options desk in Philadelphia earlier this year – leaving just two representatives in place – and is planning shortly to shut down its currency desk at the Chicago Mercantile Exchange. "The volume and the clients were not there," says Marc Breillout, general manager.

Despite the pressure on volumes, Fimat is committed to substantial financial investments begun recently, totalling at least $20m a year. In 1994, it centralised all its back office processing operations in Chicago, reflecting the fact that its contractor GMI is based there, and the ability to deal with daily transactions in the period between the closure of New York and before the Asian markets open.

It has also taken the decision to appoint a single private telecommunications network, which is being managed by France Télécom, at a cost of $7m a year. "We want to provide a global service to global customers, while decreasing our costs," says Mr Breillout. "We want to provide more services at lower costs. It's easy to say, but it's exactly the key."

Mr Crosier argues that gaining market share is a central strategic objective to ensure Fimat's future survival. While some other brokers close down operations in markets with falling volumes, he argues that Fimat needs to remain present so it can capture this business from its rivals' clients.

"It is more and more important to have critical size," he says. "Clients are asking more than ever for brokers backed by institutions with good ratings, who have full control of processing and are able to clear in all markets."

Andrew Jack and Richard Lapper

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PROFILE ING Futures & Options

Salvage operation forges ahead

Cleaning up the site of a $1bn "accident" requires delicate management, particularly when substantial assets are to be redeployed, and millions of dollars in business must be salvaged. For the past nine months, that has been the task of Karsten "Cash" Mahlmann, a senior managing director of ING Capital Holdings, a subsidiary of Amsterdam-based ING Bank.

When ING rode in like a white knight and acquired the remains of Barings last February, analysts praised the fit between ING and Barings's remaining businesses. The Dutch bank had offices in some 50 counties around the globe, and was a specialist in emerging market debt and commodity financing. Barings operated in many of the same countries, and specialised in emerging market equity. Both had growing asset management portfolios.

Combined under the ING flag, the two companies created a powerful international investment bank.

The task of weaving together ING's nascent futures and options operations and Barings's wounded, but considerable, derivatives arm was left to Mr Mahlmann.

The clean-up is something of a redeeming opportunity for Mr Mahlmann. Once the head of Chicago-based brokerage firm *Stotler*, and a distinguished chairman of the Chicago Board of Trade, Mr Mahlmann was forced to resign both positions in 1990 when Stotler collapsed and it was discovered customer funds had been used to prop up the firm's finances.

The Stotler failure was attributed to misdealings on the part of Mr Mahlmann's partners at the firm, and Mr Mahlmann was never charged with wrongdoing. Nonetheless, he quickly departed for London, where he managed the operations of Chicago-based Rosenthal and Collins, a futures trading boutique.

That position grew into a job as head of all of ING's futures dealings worldwide, which, prior to the Barings acquisition, included operations in London, Chicago, and New York.

For the past year Mr Mahlmann has been back in Chicago, building ING's business. Sitting in his office in the splendidly-restored Rookery Building just a stone's throw down LaSalle Street from the Chicago Board of Trade, Mr Mahlmann ticks off a progress report on ING's Asian futures and options businesses.

One of the biggest plums of the Barings takeover was Barings Securities' Japanese presence. Obtaining memberships to Japanese futures and options exchanges and permissions to do business can take years.

"To be in Japan, to have done business there, and to have a big client base, that is something," said Mr Mahlmann.

Late this month, ING will restart that Japanese futures and options business under the old name of Barings Securities.

In Hong Kong, ING has rebuilt the futures operations from the ground up, and will open offices there within a few weeks using the name ING Futures & Options Hong Kong Limited.

ING did not acquire the assets or the liabilities of Barings's ill-fated Singapore operations. Instead, Mr Mahlmann and the ING team have been conducting careful diplomacy, and recently received approval in principle to open a new business under the ING Futures & Options name at the Singapore International Monetary Exchange.

"We hope to be doing business in Singapore by the end of the month," Mr Mahlmann said.

Re-opening the Asian offices will be just the start of ING's challenges in the Far East. Prior to the crisis Barings Securities held in excess of $300m in margin deposits from US futures brokerage firms that dealt through Barings in Asia.

In the nine months since the British bank's crisis, some of those US companies have opened their own operations in Singapore, and have turned from customers into competitors. "That nine-month hiatus has hurt. We have to work hard to rebuild that business," Mr Mahlmann said.

ING's high-quality credit rating will help, but Mr Mahlmann is aware that rebuilding trust in Asian futures and options dealing is a must. "We're going to offer clean statements, we're assuring fund safety, good service, good management," he said.

A fundamental difference between ING Futures and Options and the old Barings is that ING will have no proprietary trading operations, and customer funds will be completely segregated from company accounts. Every account sent through the Far East will also have supervision out of London.

The long-time futures industry connections and experience of Mr Mahlmann and his associates at ING will also help.

That has already been demonstrated over the past year in Chicago. Neither ING nor Barings had much presence here two years ago.

However, ING is now one of the 10 largest trade-clearing firms at both the Chicago Board of Trade and the Chicago Mercantile Exchange, and its business at the Chicago Board Options Exchange represents about 25 per cent of the CBoE's daily volume.

That growth was prompted in part by ING's willingness to back local, or individual, traders in Chicago. However, the Dutch bank has inherent global interests that feed its derivatives business.

As a commodity lender, ING needs to offer commodity hedging services to its customers. With $210bn in assets and $13bn in capital it also has its own hedging and investment needs in the financial futures markets. ING's AA credit rating also attracts business from managed money and hedge funds, which need futures and options services.

ING's strategy is a global one, and Mr Mahlmann says that he is continually evaluating futures and options opportunities for ING in emerging markets.

For now, operations in Latin America and parts of Asia are difficult for regulatory *reasons, but he said,* "we strongly believe we have to be part of new emerging markets products (whether traded onshore or offshore) and be in the emerging market countries themselves."

With global operations, ING can also offer customers global custody arrangements, an area of potential growth. A customer dealing futures and options in one country can move those funds to another market easily, instantly redeploying resources. "This is a very important aspect of this business," said Mahlmann.

Laurie Morse

Karsten "Cash" Mahlmann: busy cleaning up the image of Barings

Picture: Glyn Genin

■ **Witching hour:** by Jeffrey Brown

Contract expiry time trial is working well

The days of dangerous price manipulation may now be a thing of the past

Witching hour, dealers' descriptive phrase for the moment at which derivatives contracts expire, is not what it used to be. There was a time – in the aftermath of the dramatic stock market shake-outs of 1987, for example – when derivatives expiries with their scenes of near feeding frenzy as dealers scrambled over themselves to cover or extend positions were treated with extreme caution and often outright distaste.

However, the outward signs suggest that much of this apparent investor disaffection has begun to melt away.

The reasons for the change of heart among investors and marketmakers as well as regulators are manifold and complex. There is no single catalyst.

In some senses, time has simply proved an efficient healer. There have been some regulatory changes, but these have been more of an adjustment than strict police-work.

If there is a driving force it is probably increased usage of derivative markets coupled with a wider variety of contracts and greater investor sophistication. As a result the scope for distortion via arbitrage trading has been reduced by a relatively painless process of natural selection.

"Thanks to more players and better liquidity the major derivative markets have become more evenly balanced. It does begin to look as if market forces, the trade-off between supply and demand, are now asserting themselves with more equal force," said one top futures marketmaker.

This is not to suggest that distortion to prices in underlying cash markets no longer *take place. They do. But when* they occur it is within clearly more defined and easily indentified boundaries.

"There will always be a technical risk at expiry. That is the nature of the beast", says Nick Carew Hunt, market secretary at Liffe, London's financial futures exchange. But the risk is now wholly visible, he says. "It is now there for all to see. Those who want to play can, and those who not need not."

Expiry distortions are driven by a whole string of factors. Volume and volatility during the life of a contract, dividend flows and fair value calculations and the proportion of structured (over-the-counter) business are perhaps the most important structural influences. Operating structures are also crucial.

Most futures markets are dominated by the leading global marketmakers. As the life of a derivate approaches its end, the bigger market operators will often attempt to maximise profits (or minimise losses) by adjusting cash market prices.

Guardians of fair market practice refer to such manoeuvres as manipulation. Others see it as fair business risk. Whatever the regulatory verdict, position-taking by the top traders is an accepted feature of Liffe's leading stock index contract, the FT-SE 100 contract, in the run-up to expiry.

Recent FT-SE 100 contract expiries have been relatively tame affairs with the transition *from one quarterly contract to* the next going through smoothly. Low trading volume has been one important reason.

The next FT-SE 100 expiry is December 15. The so-called witching hour is in fact 20 minutes. The price of the expiry is calculated as an average of the trading prices between 10.10 am and 10.30 am. It is during this period that the arm-twisting gets into its stride.

From this distance and given the low level of volume experienced during the quarter to date (lots dealt have rarely topped 10,000 per session) *few* futures watchers expect real fireworks come the middle of next month.

It was not always so. Two years ago when the December 1993 contract moved towards its close, the FT-SE 100 cash index powered ahead by around 100 points as marketmakers took advantage of the seasonally thin conditions to make the most of their positions.

The June 1990 expiry was another watershed session for the FT-SE 100 contract. During the final moments of the contract life, more than 30 per cent of the underlying cash index shares swung momentarily into backwardation – effectively a reversal of the buying and selling spread for the shares.

Although dull volume has helped take some of the speculative sting out of the FT-SE 100 expiry in recent quarters, there is a strong argument for *suggesting that moves by the* authorities to smooth the transition process have been a success.

The measures, set in train by a working party set up by the London stock exchange and Liffe, essentially changed the structure of the expiry. The timing was moved from late morning to mid-morning; and the actual expiry day was moved from the last day of the month to mid-month.

Both changes helped the investors to avoid the notoriously thin Christmas markets previously faced by the December expiry. At the same time the actual expiry period was extended from 10 minutes to 20 minutes.

On a broader front, working parameters were assigned to brokers and marketmakers. Essentially, these were aimed at improving communication between the user and the supplier of derivatives services. "Empirically, the steps that have been taken have worked," says Carew Hunt.

There are two distinct expiry patterns among the leading derivatives markets. The US style, which the German and Japanese markets tend to follow, is for an overnight expiry with expiry prices based on the first deal of the following day.

Backers of the London method, which include the Matif in France and the futures market in Amsterdam, argue that overnight expiry exposes the investor to too much uncertainty. In the US, trading *stops in mid-afternoon – a full* 15 hours before the expiry price is finally struck.

Time will tell, but in London most derivatives observers predict with some confidence that the days of dangerous price manipulation is a thing of the past.

CASE STUDY Chase Manhattan Private Bank

Asian currencies attract interest

Since last year Chase Manhattan Private Bank has been purveying the acceptable face of derivatives to its wealthy clients in and beyond Asia: structured products which preserve capital while offering the potential for enhanced returns.

Derivatives are employed essentially to eliminate capital risk and to reduce the volatility of yields. Or, as Bryan Carter, Asia area credit and portfolio executive at Chase Manhattan Private Bank in Hong Kong, puts it, to enable clients to benefit from the movements of an underlying market or currency without being directly exposed to that market or currency.

The customised products, which are chiefly based on two of the so-called exotic currencies, Thai baht and the Indonesian rupiah, allow the customer to name his view of a market and invest accordingly.

The Chase Manhattan Private Bank claims a wide audience for the products, with investors attracted by the inherent security of capital preservation and the flexibility to follow their own view of markets and time table.

There is also growing interest in Asian currencies per se: Peregrine Investments, a Hong Kong-based investment bank which last month restructured its foreign exchange business to create an Asian currency trading and distribution operation, estimates that the total daily volume in spot and forward dealing in Thai baht is US$1.8bn, with some 60 per cent of spot volume and as much as 70 per cent of swap volume coming from offshore. By comparison, in 1992 estimated daily spot volume was US$250m and forward volume was US$100m and offshore interest was negligible.

Peter Kingston, vice-president of global markets with Chase Manhattan Asia, says the Asian currency markets have developed rapidly over the past 12 to 18 months, both from a liquidity perspective and from increased sophistication.

"There was not much happening with regard to more sophisticated currency types of options in the market for local currencies two years ago. But now you can get quotes off brokers and broker screens. It has gone from the odd trade to getting a series of quotes from brokers on trades," he says.

However, while markets like the Thai baht are roaring ahead, progress in the rest of Asia is more patchy, partly due to the absence of forward markets (in Taiwan, Korea, China and India), pegged currencies (in Hong Kong, where the dollar is fixed at around 7.8 to the greenback), and government restrictions (in Singapore and Malaysia).

Mr Kingston, whose desk is responsible for structuring the investments among other derivative-based products, for both private and institutional clients, says that customers' demands have changed in line with the development of the market. No longer prepared to settle for products that boast neither potentially high yields nor protected capital, customers in the past two years have been seeking capital guarantees and investments that enable them to take a position based on their own beliefs: a demand which, thanks in part to derivative instruments, can now be met in Asia's key currency markets. The ability to meet these demands has widened the appeal, and brought US mutual and hedge fund managers into the fold.

The structures are managed by the bank with knock-out put and call currency options. For range binary structured deposits, double knock-out put and call currency options allow investors to fix an upper and lower limit within which they believe the currency will range-trade, while for digital structured deposits, the bank manages the structure with a single set of knock-out put and call options for the single limit selected on maturity (digital). Chase always hedges these positions.

Mr Carter notes that the more risk-adverse investors can also opt to have a minimum coupon, so that even if the chosen currency moves beyond the stipulated limits, he can still be assured of a return (for which he sacrifices a greater return if he correctly predicts the parameters). In each case, he knows at the outset what his yield will be.

The bank, through its asset management arm, is also offering discretionary portfolio management, where again return of the initial investment is guaranteed.

Louise Lucas

■ **Technology:** by Claire Gooding

Keyed up for progress

Software makers are trying to meet the demand for sophisticated methods of risk management

"The language of risk is in its infancy." So says Till Guldimann, the man who managed risk at J P Morgan for 21 years and developed its market risk management and RiskMetrics systems.

According to Mr Guldimann, who recently became executive vice-president at derivatives software provider Infinity, "an annual report tells you about cash, loans, bonds and buildings, but not about their risk levels, and the potential volatility of their market value. In the absence of a common language to describe risk, independent internal risk control is a very difficult task."

Frightened by the disaster at Barings, and with minds focused by the Capital Adequacy Directive (Cad), many a financial institution is anxious to become fluent in the language of risk. "Enterprise-wide risk management" are the first words in the phrase book, and chapter one starts with derivatives.

The complexity and volatility inherent in derivatives trading mean that anyone trying to compose a cross-disciplinary view of risk tends to start there, simply because it is the most difficult variable to handle in the overall "enterprise-wide" risk equation.

This puts the providers of derivatives software solutions – SunGard, Infinity, C.ATS, Renaissance and Summit, to name but a few, in a particularly strong starting position in the race to produce "global risk" systems. At their disposal are information technology methods already applied successfully elsewhere, arriving in the nick of time for those racing to comply with Cad.

The first of these is object-oriented programming (Oop), which provides a simpler approach to programming through the use of "objects". An object gathers together in one place all the relevant information about an item (for example, a transaction), its characteristics and relationships.

It also brings the ability to create a complex but very flexible "data model" in which new objects (such as a new financial product) can "inherit" characteristics from an existing one, without starting a new definition from scratch.

The second IT arrival is the "data warehouse", a phrase that suggests retail or manufacturing, but in fact is more to do with hoarding information that may (or may not) prove significant, and attempting to make sense of it. The data warehouse pools transactional data from operational systems into one huge repository, dedicated to analysis.

Retailers have indeed pioneered such systems, using parallel processing to discover who buys what, where, and when, and what the weather was like at the time. "data mining" to unearth gems of wisdom about customers and buying patterns.

Although financial transactions cannot – unlike shopping – be traced by bar codes, global risk management also demands such techniques, with links to disparate operational systems.

The process of "cleansing" the data to define exactly what is what (different systems tend to proffer slightly differing definitions) is intrinsic to both Oop and data warehousing. This process is one that demands skill, subtlety, and internal understanding of how each individual business operates, and often a large consultancy budget if the end results are to mean anything at all.

US database software house Oracle claims to be the leader in data warehousing and parallel processing. Oracle is already working with a number of software houses which build and sell derivative trading systems, such as Infinity, C.ATS, Teknekron and Summit.

"They all want to extend into the enterprise-wide area of applications, and for that they require the ability to have high levels of performance against very large databases. They can all see the applicability of data warehouse technology," says Rob Cullen, senior industry director of financial services for Oracle.

Oracle itself has extended its software, with the acquisition of IRI Express for analysts of multi-dimensional and spatial data (e.g. in Monte Carlo analysis), and the development of sophisticated query tools.

C.ATS became an Oracle business alliance partner last month and is porting its applications via Oracle's design and migration services. C.ATS chief executive Rod Beckstrom is convinced that techniques developed in the analysis of derivatives will provide the genesis of generalised risk management.

"Financial specialists have developed the ability to break down risk into fine-grained granular data: they can tear an option apart, ripping out foreign exchange risk, volatility risks, and so on across months, making very precise estimates, along with the hedging in offsetting those risks," he says.

C.ATS, says Mr Beckstrom is well placed to deal with importing data from the hundreds of operational systems which feed and translate the data into a constant model.

"Our unique offering is the mapping tool for translating the data and mapping it into the database for risk analysis. It's complex: there's no magic potion. We also have a hands-down advantage in that our system is designed and tuned to be five to 100 times faster than others."

Infinity, already tuned to Oracle, and with the wisdom of Mr Guldimann at its disposal, might also think it has a hands-down advantage. It uses OO technology for rapid development, and has approached the market with a "tool kit" approach that allows users to tailor their own solutions.

In creating enterprise-wide risk tools, argues Mr Guldimann, "experience with complexity certainly helps, but it's the flexibility that really matters.

"The OO approach helps because of re-usability: it's the lego-build technique, offering flexibility, adaptability, and efficiency. The analytics, the interface and the database are the three key elements. First create the data model, then apply the statistical analysis. The problem is granularity, the level of detail needed for meaningful analysis: for that you need object-orientation."

SunGard Capital Markets, about to launch a new product division geared to enterprise-wide risk management, also claims a unique approach. "A complete data model for storing all of an institution's trading information, together with innovative, seamless links to the extant systems and an arsenal of risk management weapons which includes hedge equivalence, flow profiling, scenario analysis derivatives ladders and value at risk" according to marketing director Ian Armstrong.

"We don't believe it is feasible for a bank-wide risk management system to rely on just a software development tool-kit, or adherence to a single mathematical concept such as value-at-risk."


Till Guldimann: "the language of risk is in its infancy"

Correction

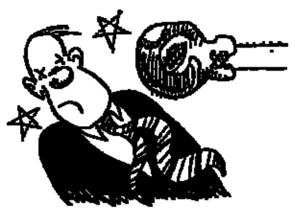
Contrary to the impression given in the article on securities lending in the survey of Global Custody (FT November 6, 1995), Scottish Amicable is just starting to lend UK securities. It is an established participant in international equity and fixed interest lending. The Co-operative Insurance Society has been lending stock since the early 1980s. Threadneedle Asset Management acts for both Eagle Star, which traditionally has lent stock and for Allied Dunbar which has not. Threadneedle is currently deciding whether Allied Dunbar, also part of the BAT industries Group, should join the active participants.

■ **Glossary of terms**

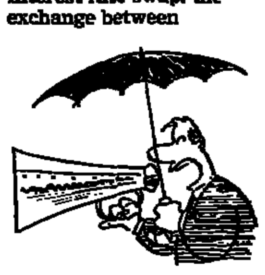
Meaningful expressions in the trade

An explanation of some of the jargon used by dealers in the derivatives markets

Asset allocation: the division of investments among markets to achieve diversification or maximum return.
As-you-like option (or chooser option or the call-or-put option): enables the holder to convert from one style of option to another during a preset time period.
Average rate option (or Asian option): an option in which the settlement is based on the difference between the given strike and the average prices of the underlying stock or index on selected dates.
Barrier options: a family of path dependent options whose pay-off pattern and survival to the expiration date depend not only on the final price of the underlying security but also on whether or not the underlying security sells at or goes through a pre-determined barrier at any time during the life of an option. Barrier options include:
Knock-in option: an option which pays nothing at expiry unless it is first "activated" as a result of an underlying variable reaching a pre-determined level.
Knock-out option: begins life as a standard option but is "killed off" if an underlying variable touches a pre-determined level.
Best-of-two option (or either-or option or alternative option): provides the option holder with a pay-off based on the independent performances of two separate and distinct securities or indices.
Box options: instead of placing cash in a money market instrument and generating interest income, equity options are purchased. The pay-offs create capital gains that can be offset against current capital losses.
Call option: the right to buy a



given stock, commodity, index, or futures contract at a fixed price on or before a specified date.
Cap: contract between a borrower and a lender where the borrower is assured that he will not have to pay more than some maximum interest rate on borrowed funds.
Collar: a floating rate debt contract that establishes a maximum and a minimum interest rate to be paid by the borrower.
Commodity swap: a swap in which counterparties exchange cash flows based on a commodity price on at least one side of the transaction.
Compound option: an option on an option. The holder has the right to purchase another option on a pre-set date, at a pre-set premium.
Contango: a condition in a futures market where the more distant delivery months trade at a premium to the near term delivery months.
Covered call: one of the most popular option strategies, using an existing equity position. Calls are sold on the underlying security with strikes which are higher than the market price.
The strike price chosen limits the profit a security holder can realise from the position and this strategy is best used when the holder is fairly certain that there will be little movement in the security's share price.
Currency swap: an exchange of equal initial principal amounts of two currencies at the spot exchange rate. Over the term of the agreement, the counterparties exchange fixed or floating rate interest payments in their swapped currencies.
At maturity, the principal amount is reswapped at a predetermined exchange rate so that the parties end up with their original currencies.
Derivative: a contract the value of which changes in concert with the price movements in a related or underlying commodity or financial instrument. The term covers standardised, exchange-traded futures and options, as well as over-the-counter swaps, options, and other customised instruments.
Equity swap: a contract between two counterparties to exchange two different cash flows over time. During the life of the swap one party agrees to pay the rate of return on an equity or the equity index while the other party agrees to pay a floating or fixed rate of interest.
Floor: an aspect of a floating rate debt contract that specifies a minimum interest rate for a borrower.
Forward: an over-the-counter agreement for a buyer and seller to exchange a particular good for a particular price at a specified future date.
Futures contract: an agreement between a buyer and a seller to exchange a particular good for a particular price at a future date as specified in a contract common to all participants in a market on an organised futures exchange.
Collateral must be posted for performance bonds, and positions are marked to market at least once a day.
Hedge: a transaction that reduces risk of an underlying security or commodity position by making the appropriate offsetting derivative transaction.
Hybrid security: a complex security consisting of virtually any combination of two or more risk management building blocks – bond or note, forward, future, or option.
Interest-rate swap: the exchange between



counterparties of fixed-rate and floating-rate debt in a single currency.
Lookback option: an option the pay-out of which is calculated using the highest intrinsic value of the underlying security or index over the life of an option. In the case of a lookback call, the highest market price is used whereas for a lookback put, the lowest market price is used.
Put option: the right to sell a particular stock, bond, commodity or index at a specified future date at a

specified price.
Quanto option (or guaranteed exchange rate option): an option in which foreign exchange risks in an underlying security have been eliminated.
Risk reversal: this strategy combines the purchase of a put option with the sale of a call option.
The put option preserves the capital value of the shareholding while the sale of a call option reduces or eliminates the cost of this insurance, at the expense of giving up some of the upside potential of the stock.
Swap: a contract to exchange a stream of periodic payments with a counterparty.
Swaption: an option to enter into a swap contract.
Warrant: an option to purchase or sell an underlying instrument at a given price and time or series of prices and times. It is ordinarily issued for longer than a year.

Sources: Dictionary of Financial Risk Management by Gary Gastineau; Option Volatility and Pricing Strategies by Sheldon Natenberg; Equity Derivatives Glossary, published by Swiss Bank Corporation.

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EUROPE'S DYNAMIC ENTREPRENEURS

Exports and quality create success

The first pan-European study into the successful fast-growing company has presented policy-makers with valuable but unexpected conclusions. Richard Gourlay reports

Business Objects, a French software developer, is just the kind of company Europe's politicians would love to see sprouting up all over the continent.

Formed five years ago by two French software entrepreneurs, the company had sales last year of FFr168m (£21.78m) and now employs more than 200 people.

Yet according to research into Europe's most dynamic entrepreneurial companies which has just been completed, Business Objects is not typical.

First of all it is a young company. Secondly it is run by relatively inexperienced entrepreneurs who quit a European division of Oracle Systems to branch out on their own. Thirdly Business Objects raised venture capital early in its life. And fourthly it has made expansion into the US a pivotal element in its strategy, floating on the Nasdaq exchange along the way.

Almost none of these characteristics emerges as typical from the research which is being presented today and tomorrow in Ghent.

So what is the make-up of the typical rapidly-growing company in Europe, if such a business exists? On pages II and III overleaf this survey profiles just the sort of companies in a variety of European countries which exemplify rapid growth in a dynamic business environment. The answer is, however, that until now, few policymakers at European level have known the answer, in spite of the growing importance of these new companies to the creation of wealth and jobs in Europe.

This lack of understanding partly explains why the European Commission last year funded a group of research institutes, co-ordinated by the European Foundation for Entrepreneurial Research (Efer) and supported by accountants Ernst & Young, and financial information providers Dun & Bradstreet, to identify 500 exceptional entrepreneurs who are running very fast-growing companies.

The survey involved more than 20,000 fax and telephone calls to companies and nearly 400 face-to-face interviews. It has resulted in one of the largest ever pan-European studies of entrepreneurial success.

The research was not intended to be comprehensive. It does not claim to have identified the 500 fastest-growing companies or those that have created most jobs. Too many European companies prefer their privacy for such a claim to be made.

Nor were its terms of reference, based on criteria dictated by the Commission, as clear as they could have been. As a result, the measurement of growth was over-dependent on the rate of job creation rather than increases in turnover.

Other limits on the size of the businesses to be covered were built into the research parameters. To be eligible companies had to be growing rapidly – as measured by a combination of absolute employment growth and growth relative to the company's size (for details see methodology on page III). They were also required to have grown to at least 40 employees by 1994 and to have started in 1989 with fewer than 500 employees.

In consequence many small but rapidly-growing high technology companies will have been missed out, such as Probe Entertainment, a UK games software company sold to Acclaim Entertainment of the US for more than £20m last month.

At the other end of the scale the Commission's criteria excluded companies such as Billa, the Austrian supermarket chain owned by entrepreneur Karl Wlaschek, which has increased its workforce by nearly 50 per cent through organic growth from 10,000 over the period. Another entrepreneur excluded is Eugen Münch, who controls Rhône Klinikum, a hospital services company. It has increased employment fourfold since 1989 but started with 630 employees.

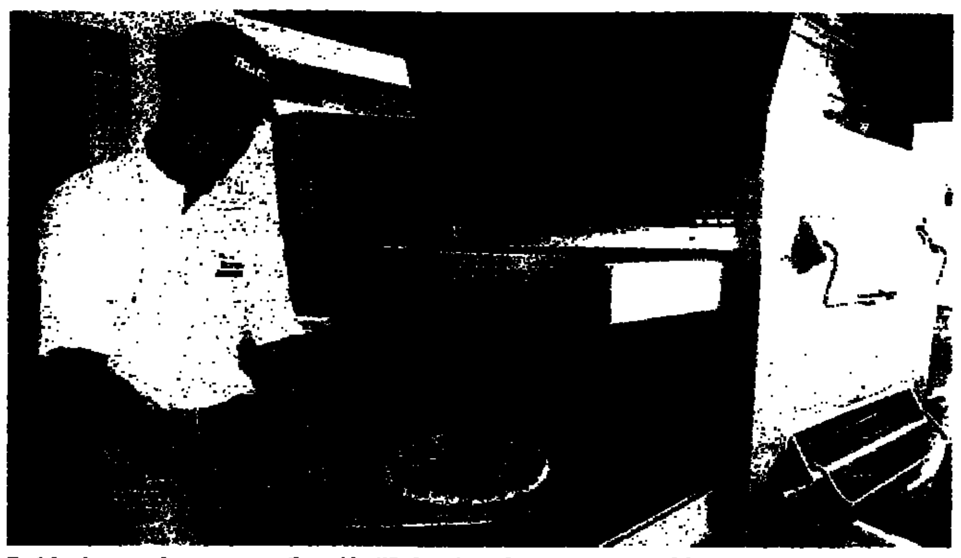
In spite of these reservations, the researchers have completed, possibly for the first time, a pan-European investigation of entrepreneurs across Europe.

A preliminary look at the data carried out by the Belgian consultancy IP Strategies showed that the 800 fastest-growing entrepreneurs created more than 112,350 jobs – an average of 140 jobs each – at a time when most medium-sized companies were shedding labour.

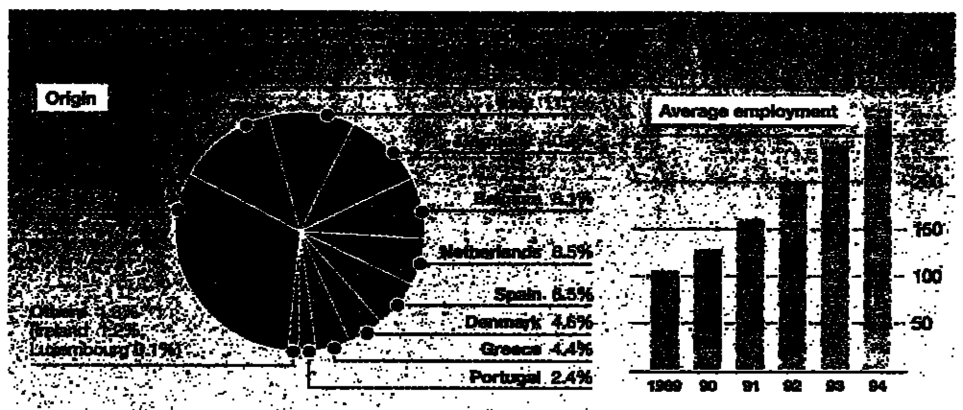
A more detailed study of the fastest growers – what Efer calls Europe's Dynamic 500 – broadly supports the IPS findings, though it was incomplete at the time of going to press.

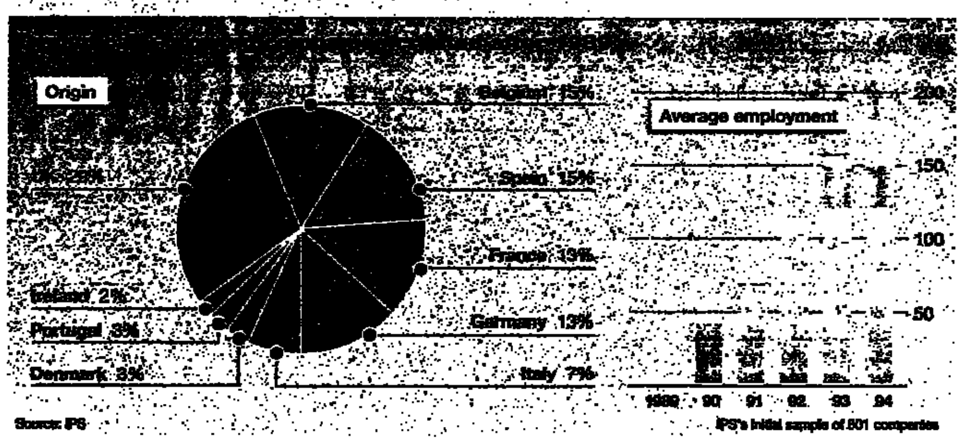
"These are hyper-growers of employment and turnover," says Mr Juan Roure, a professor at IESE Business School in Barcelona and academic co-ordinator of the project. "We are talking about 22 per cent per annum employment growth and 38 per cent a year growth in sales at a time when most of the countries were going through recession."

The typical entrepreneur displays surprising characteristics. The research shows that most of the companies were founded by experienced men and (a tiny 1 per cent of) women with an average of 10 years in business and an average age of 44. Many are trained professionals but all levels of educational attainment are present – half the entrepreneurs do not have a degree.



Fast food companies are among those identified as dynamic and entrepreneurial





Source: IPS

IPS's initial sample of 501 companies

Equally striking is the fact that more than half the entrepreneurs founded their companies with at least one business partner. This supports the findings of research carried out in the UK that teams are either a more creative force than lone entrepreneurs or that businesses with more than one founder start with greater critical mass and therefore have a much bigger chance of surviving and thriving.

As to the kinds of businesses that are growing rapidly, Mr Roure says the research shows there is almost no difference between the sectoral distribution for Europe's 500 companies and that of enterprises throughout the EU in general.

Thus there are a large number of software companies, computer systems integrators and other information and telecommunications companies, such as Business Objects, Netzwerk Service in Germany and Peoples Phone in the UK together with fother high technology companies, such as MBR in the Republic of Ireland. These companies are no more strongly represented among the fast growers, however, than within all EU enterprises.

"The findings are consistent with other findings in the US that you do not have successful sectors, but successful companies and teams," says Mr Roure.

What may dismay researchers and policymakers who are hoping Europe will become a hotbed of the new technologies is the age of the companies surveyed. The average was 17 years, but a quarter had been founded in the last century. These companies have clearly found a second or third wind under new management in order to achieve superior levels of growth.

What is also surprising is the small number of entrepreneurs emerging from large companies. "We have hardly identified any dynamic entrepreneurs who have left large companies such as Siemens or Mercedes to start ventures on their own," says Mr Bert Twaalfhoven, who is president of Efer and the driving force behind the study of Europe's entrepreneurs.

Unlike technology-based companies, which have to operate in global markets, many of the rapid growers attributed their success to exploitation of the European market. There was a much higher proportion of exporters among the rapid growing Dynamic 500 than within the EU in general.

But while exporting was a common characteristic among the rapid growers, more than three-quarters of the exports of Europe's Dynamic 500 were to other EU countries.

Only a very small number of the Dynamic 500 grew in existing markets with existing products. Almost two-thirds achieved growth by entering new markets with existing products. But half of these performed the high wire act of launching new products into new export markets.

With few exceptions the entrepreneurs attributed their growth rates not to their ability to compete on price but to their quality and service. "The companies never say they are competing on cost," says Mr Roure. "They compete on differentiation and in particular on quality."

Yet if the quality ethos has caught on, the use of external financing, which is firmly established in the US and the UK, is far from well accepted. For more than 70 per cent of the rapidly-growing companies, retained profits from the business are the main source of funding.

Bank loans are the next most popular method, whereas venture capital is the most popular funding route for only 10 per cent of entrepreneurs. Although venture capital has been widely adopted in the UK, and to a lesser extent in France, it is very rarely the prime source of capital elsewhere in Europe.

The strongest message to emerge is that these entrepreneurs are succeeding in spite of government policy rather than because of it. High on their list of concerns with government – for which also read the EU – is bureaucracy and to a lesser extent the heavy burden imposed on them by social security payments.

But as Mr Heinrich von Liechtenstein, executive director of Efer, points out: "We know the entrepreneurs are growing in spite of the bureaucracy – they are bypassing the problems."

The success of these companies in exporting to other EU countries would also suggest further measures to ensure the single market is fully implemented would bear fruit. "These companies are targeting the European market so anything that facilitates expansion of the single market and eliminates obstacles is important," says Mr Roure.

■ **Vitae Group:** by Ronald van de Krol

A matter of personal chemistry

A small agency has grown into a four-part employment services group

Boyhood friends do not always turn out to be the best business partners but in the Netherlands Jelle Boelen and Teo Rasing provide positive proof that successful, fast-growing companies can find firm roots in a 20-year-old friendship.

Over the past 10 years the two men have built up an employment services group which regularly racks up annual growth rates of 40 per cent and more.

Their Amsterdam-based Vitae Group – which takes its name from the second word of "curriculum vitae" – plans to generate Fl 75m ($47m) in sales in 1996, up from a projected Fl 50m-Fl 55m in 1995. Another of the company's goals is to launch its first national advertising campaign in newspapers and on radio. This will mark a departure from its usual policy of mounting advertising campaigns in the trade press and relying on referrals from pleased clients.

The secret of their success in employment services – a quintessentially Dutch sector with lots of competition and many short-lived ventures – is not at all straightforward. One reason why Vitae Group has survived and flourished while competitors have gone out of business is that it has specialised in selected niches, such as those for engineers, accountants and advertising executives. Another is the company's ability to foster an exciting climate of swift growth, while maintaining tight financial controls.

But much of the concern's success is the result of the simple chemistry which exists between two men who have been friends for 20 years, since they met at the age of 15 at a billiards club. The two partners complement each other, with Mr Boelen looking after the commercial side while Mr Rasing keeps watch over the group's internal organisation.

They also manage to see eye-to-eye in ways that elude most many married couples. "If we were to go out and buy a car together, we'd quickly agree not only on the type of car but the colour, too," Mr Rasing says.

Teo Rasing: Vitae Group is no ordinary employment agency

Their business partnership began in 1986 with the establishment of their first company, Inter AT. Just three years out of technical college, Mr Boelen and Mr Rasing decided to set up a project engineering agency for "automation and technology", hence the name. Their idea was to offer architectural firms, contractors and other technical companies the chance to hire trained specialists on a short-term project basis.

> The decision to branch out was driven by the demands of clients

Inter AT, which is still thriving today, is decidedly not a temporary employment agency in the usual sense. "The difference is that we're highly involved with the project and that we feel responsible for it," Mr Rasing notes. "We can be involved in all stages, from supplying draftsmen for the drawing board operations to supervisors on the construction site."

In 1989, Inter AT's two founders decided to branch out in two new directions in job placement and temporary employment. The impetus grew partly out of demand from existing clients who began approaching the company for secretaries and bookkeepers as well as for technical staff. "We soon found ourselves in the position of being bakers who also sold cars on the side," Mr Rasing remembers. "We soon thought: 'Let's do this properly'."

The result is a group with four operating companies which have regional offices in Rotterdam, Eindhoven, Utrecht and Zwolle as well as Amsterdam.

Besides Inter AT, the Vitae Group comprises Nouveau Métier, a placement bureau for sectors such as insurance and advertising; Tools, a temporary employment agency for plumbers and welders; Vitae Secretarieel and Vitae Financieel, temping and employment agencies for secretaries, bookkeepers and other financial staff respectively.

A civil engineer, provided by Inter AT on a temporary basis, supervises a roadbuilding project

The group finds itself in a favourable business environment in the Netherlands, whose workforce has the world's highest percentage of temporary employees. On average around 2 per cent of employees are temporary compared with just 0.5 per cent in Germany, where labour laws have hampered the sector's development.

The Netherlands' biggest temporary staff and employment agency, Randstad, ranks among the world's top five. It was started in the 1960s by another enterprising Dutchman, Frits Goldschmeding. Its turnover of more than Fl 4bn makes it 80 times larger than Vitae.

To survive in the home territory of such giants, Vitae has purposely kept to its own niches and specialisations. It has also been careful in managing the financial side of its swift growth. "We still check every invoice," Mr Rasing says.

The group has a permanent workforce of 100, though the number of people who find work through Vitae's four companies is far larger. Mr Rasing, aged 37, is almost the oldest of them. "There's one member of staff who is two months older than I am," he says.

Despite recent expansion, Mr Rasing and Mr Boelen consciously try to hold on to the family feeling that has pervaded the closely-knit team. "I'd hate to go to an after-hours drinks party and see 10 to 15 people I didn't know. We make sure that when new people join us in the regional offices, we get to meet them at one of our twice-weekly management meetings."

■ **Netzwerk Service:** by Michael Lindemann

Network company with a national niche

Flexibility and national scope have helped Netzwerk Service to grow

Mr Joachim Röder could not have put up a better show of frenzied activity and dynamism if he had been asked to stage it for the benefit of a Hollywood director.

With his designer leather jacket draped over his chair, he was moving agitatedly up and down behind his desk warning his representative in Berlin by phone of the pitfalls of Betriebsräte, the employees' councils which are the bane of every German manager but have played a key role in the country's post-war economic success.

"Well I've just about come to terms with the idea of a betriebsrat but what I'm not going to permit is that people use it as an excuse just to travel around Germany checking on our operations nationally," he barked. "I'm not having any of these betriebsrat excursions."

Netzwerk Service, the Munich-based computer network company which Mr Röder co-founded in 1989 has grown at such a rapid rate that it now needs an employee council. In the past five years sales have risen from DM3m (£1.3m) to a forecast DM105m this year. Mr Röder started with 77 employees and now has 700.

"I want to turn this into a company with sales of DM750m, employing 1,500 people," is the first thing Mr Röder says after putting the phone down.

He has taken no holiday for six years and works 16 hours a day to mastermind a company which has 22 offices nationally and has installed telecoms and computer networks for clients as diverse as the Russian police force and a German insurance company.

The former wanted 180 police stations across the Federation modernised. The latter needed 22,000 portable computers exchanged nationally and all the employees using them retrained.

"We are established and it's becoming easier to get clients," he says. "In fact, clients can't keep away from us."

Over half of Netzwerk Service's turnover comes from installing networks, a business which has been booming in recent years in Germany given the prospect of a liberalised telecoms market in 1998. Another 25 per cent comes from maintaining networks and servicing computers.

Netzwerk Service has created a niche for itself as the biggest of the smaller network companies: slimmer and more flexible than a Siemens but with a national reach which companies of a similar size do not have.

Netzwerk Service's national scope, explains Mr Röder, is particularly important for the lucrative after-sales contracts under which the company is obliged to have a network anywhere in Germany up and running again within four hours of a problem.

Joachim Röder: seeking greater participation from employees

But Mr Röder, 48, says the company's success lies in having been able to turn the technicians who install the networks into managers and salesmen. "I think I've been able to teach them that wherever they go they must have the clients' needs foremost in their minds," the entrepreneur explains. "If we are installing a network for the client then we immediately ask him if he needs a new floor put in and do it for him. We also offer to put in a lighting system better suited to the needs of the new network."

To get home the point about customer care, Mr Röder has warned his employees that he will deal personally with complaints from clients about the service provided by the company. There have been relatively few, he adds.

Another vital ingredient of success is employee participation, he says. Ideally he wants Netzwerk Service to become a joint stock company with employee participation. Although he has so far been unable to persuade the company's managers to invest in the company, Mr Röder nonetheless offers successful employees up to 30 per cent of the profits. This year he will pay out DM2m of premiums to the company's best employees.

Does he sometimes worry that he may be overreaching himself? After all Nixdorf, the computer producer where Mr Röder worked for several years before starting Netzwerk Service suffered just such a fate.

Mr Röder, whose father owns a chemicals company which is one of the hundreds of thousands of Germany's medium-sized companies or Mittelständler, has a quick answer.

"The secret is to remain small enough where one person can still drive the whole thing body and soul. Never do what they do," he says, referring to the likes of conglomerates like Siemens. "Always remain a Mittelständler."

Netzwerk Service's main problem, Mr Röder says, is raising new capital. The company has few assets which it can use as collateral to secure money from the banks and Mr Röder complains that there are too few sources of venture capital, a common grievance in Germany.

Netzwerk Service is leaving no stone unturned in its efforts to remain flexible and improve performance. When Mr Röder needed a licence for a new Israeli telephone system recently he knew the German authorities would take weeks to process the application.

Instead he flew to England where it took just one week to do all the necessary paperwork. One of the advantages of Europe's three-year-old single market is that a licence issued in any one of the 15 member states automatically has to be accepted by the others. He has vowed he will do the same again in future if the German authorities are too slow.

■ **ATC:** by Tim Burt

Anzac spirit suits City customers

Graduates keen to earn money for travel constitute a high quality workforce

When New Zealand recruitment specialist Ruth Foreman first arrived in London six years ago she was looking for business opportunities not work. She saw rich pickings arising from what she perceived as the mixed quality of Britain's personnel and temporary staff agencies.

"Few consultancies were delivering a high standard of service and there was little loyalty among client businesses," she says. Her disappointment with the City's existing personnel agencies extended to the calibre of the temporary employees they offered to their clients, so she decided to import her staff.

In 1990, the Australasian Temp Company opened its doors promising clients "temping with a new accent". Its workforce was made up of young Australians and New Zealanders keen to meet the demands of the London labour market.

The group satisfies UK law by declaring itself an equal opportunities employer, but Ms Foreman is unashamedly partisan when extolling the virtues of the Anzac work ethic.

"In Australia and New Zealand service is seen as an art and profession. Our people have a reputation for flexibility and a 'can-do' attitude," says Ms Foreman. She believes this approach is uncommon in Britain.

Fortunately for the company, its arrival coincided with a shift by many City institutions from permanent to temporary or short-term contract staff.

According to the Chartered Institute of Marketing the UK is following in the footsteps of the US, where a quarter of the workforce work on a temporary basis or as part-timers, freelances or consultants. Temporary staff, who now form approximately 1 per cent of the UK workforce, could represent 10 per cent by the turn of the century, the institute says.

ATC claims it can meet that demand by supplying a steady stream of recruits from New Zealand, where Lampen Group – its parent company – has already become the country's largest privately-owned personnel consultancy.

Ms Foreman, a former general manager of Lampen, says the strong links enable the London subsidiary to recruit the best candidates before they even leave New Zealand.

The company also relies on a steady stream of visitors, who put down temporary roots in London to earn money for further travelling.

This semi-nomadic Australasian workforce, mostly comprised of young graduates, can take advantage of UK immigration regulations to work for up to two years if they are aged between 17 and 27. They can stay for longer still if they have grandparents residing in the UK.

"These people are grateful to be earning British pounds rather than spending their New Zealand savings," Ms Foreman adds.

Their willingness to work to finance their travels provides the raw material for ATC, which has won a strong following among such blue-chip City of London clients as UBS, Credit Suisse First Boston and the London International Financial Futures Exchange.

The promise of relatively cheap labour, from often overqualified graduates, is attractive to these clients. It has proved very lucrative for ATC. Last year the company's turnover rose 55 per cent to about £5m and operating margins reached 10 per cent.

That growth should continue if, as the Chartered Institute of Marketing predicts, demand for temporary and short-term contract workers continues to grow at 10 per cent a year.

The potential of ATC is demonstrated by the recent growth of some of the UK's largest personnel groups. CRT for example saw operating profits jump last year from £3.7m to £6.7m amid strong demand for computer-literate staff.

A shift by many City institutions from permanent to temporary or short-term contract staff suited ATC

Similarly profits at Reed Executive grew from £665,000 to £6.4m as its temporary employee business increased by 500 per cent.

The financial equation behind that growth is fairly simple. As the middlemen in temporary recruitment, agencies such as ATC receive a fee from clients and a cut of the hourly wages paid to temporary staff.

Typically ATC charges £12 an hour for supplying a worker to a blue-chip client. In turn it pays the temporary employee between £8 and £9 an hour in wages. Most of the company's clients pay ATC two weeks in arrears. So the agency has to pay its staff wages from cash balances ranging from £50,000 to £80,000 a week.

The skill of entrepreneurs such as Ms Foreman is to manage the cash to fund that wage bill. They must also invest in marketing to woo new corporate clients and training facilities to improve staff skills. "There's no doubt we can manage that challenge and we've never once gone into overdraft," she says.

Although ATC believes its model would work elsewhere in the UK, and possibly in other parts of the English-speaking Commonwealth, it is concentrating future growth plans on London.

"This is a fast-growing industry, particularly in the legal and financial sectors," Ms Foreman adds. "We see 10 years of further growth ahead, and that's just in the City."

■ **Buffalo Grill:** by Andrew Jack

French palates adapt to American steaks

Christian Picart has sold American eating habits to the conservative French public

Setting up US-style steak houses in France, which sees itself as the home of fine cuisine, might seem foolhardy. But it is a formula which has worked extremely successfully for Mr Christian Picart.

Nestling intriguingly alongside the computer software groups and other fast-growing European companies producing more abstract products and services, Buffalo Grill restaurants are delivering steaks and fries to some 14m French customers a year.

Fifteen years after he opened his first branch in 1980, Mr Picart oversees a chain of nearly 130 restaurants employing 2,600 people from his office in Arainville to the south of Paris.

Last year he reported sales of FFr1bn (£130m) and net income of FFr50m from the 87 restaurants he controls directly. A further FFr400m in turnover was provided by Buffalo Grill's 40 franchise holders.

"If you had asked me in 1980 I would never have imagined that I would be running 130 restaurants today," he says. Fifteen years before that, he had not even realised that he would be spending most of his working life in the country of his birth.

Mr Picart believes that one of the secrets of his success has been that you have to know a country - in this case the US - to sell its lifestyle.

He was born and brought up in France, in a family which he describes as "fairly poor". After completing his military service he emigrated first to Canada and then the US during the 1960s. He says he had every intention of staying there.

He lived in Palm Springs and then San Francisco, working in a variety of restaurants - a number of which were French - and in all sorts of jobs, including that of a waiter.

"I am more American than an American," he says. "There are real possibilities to earn money in the US. I found it marvellous. It took me two years to re-adjust when I returned to France."

He came back in the late 1960s, driven by the economic demands of his family. First he opened a dry-cleaning business. Then in 1974 he opened a motel south of Paris with what he calls "a little bit of Club Med style". This included a swimming pool and tennis courts.

The venture still performs well although Mr Picart changed the name to respond to French prejudices that all motels are cheap and distasteful.

His real long-term interest was the food business and he was eager to return to his preferred sector. The concept of Buffalo Grill restaurants which he developed is unashamedly North American, from the Wild-West-style lettering spelling out the name of the chain to the logo representing hooked horns which surrounds it.

The food is also unmistakeably American. "We have every type of meat you can imagine," he says. The wine list features Californian vintages, although - in a concession to the surroundings - some French varieties are also on the menu.

Financed largely internally, with help from an associate and then from the Total Group, Mr Picart has built up the chain around the idea of leasing large sites by main roads on the periphery of towns.

It took three years before he was ready to open the second restaurant in 1983. But then the pace accelerated quickly. Mr Picart says that in the last three years Buffalo Grill has set up about 20 new restaurants every year.

Apart from a superiority of attitude from Parisians towards many US products and services, Mr Picart says he has never been aware of nationalist prejudice against his chain. Striking farmers who had caused problems for McDonald's, passed by one of his restaurants without trouble.

His restaurant in Bobigny, a long-standing stronghold of the French Communist Party, is also thriving despite his initial reservations at opening an outlet there.

"The ideology of the left is not to denigrate US culture," he says. "In general the French react very positively to the idea of American food despite what one might think."

He does concede that the quality of service in the US is very different to that in France. "It is one thing we have imported," he says, placing emphasis on training his staff and applying his personal experience on the western side of the Atlantic to the French restaurant trade.

Mr Picart says that he currently has his eye on opening a further 30 to 40 sites within France in the medium-term.

He is also beginning to look further afield, and expects from next year to start setting up restaurants elsewhere in Europe: notably in Germany, Spain and Belgium.

Meanwhile, his relatively low profile - he says he has never before given an interview to a journalist - may have to change. Mr Picart is considering seeking a quotation on the French stock market.

Methodology: by Richard Gourlay

Dynamic search

This is the first time the project to identify 500 dynamic entrepreneurs running medium-sized European companies has yielded useful results.

Though it has not produced a comprehensive list of the continent's most dynamic entrepreneurs, the research has created a database for further research and thrown up some surprising findings.

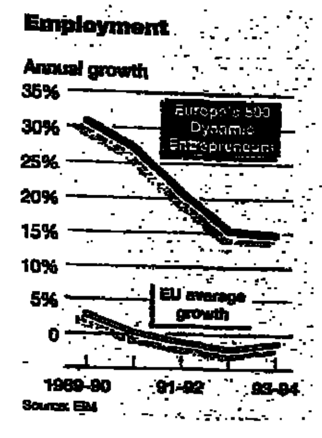
The research set out to identify a group of the fastest growing entrepreneurially-led companies in Europe. The intention was to complete the search with face-to-face interviews with 500 of the fastest growers, conducted by Ernst & Young, the accounting firm.

The project started late last year with IP Strategies of Brussels, a consulting firm, searching through the databases of Dun & Bradstreet and other providers of European company information.

This identified about 80,000 companies that could demonstrate growth in employment or sales between 1989 and 1994.

IPS applied an objective measurement to filter the sample further. This was a formula created by David Birch, a leading analyst of entrepreneurs in the US, combining the absolute growth in the employment of a company with the relative growth. Using the Birch formula IPS chose about 6,800 of the companies from its first search of the databases.

The researchers then made 16,000 phone calls and sent 5,500 faxes to this group asking for more information. As a result, they selected about 1,000 companies that were the most rapid growers and which were prepared to co-operate with them.



IPS reduced this sample by 100 companies because the Europe Commission, one of the key funding partners in the study, was only interested in companies that started in 1989 with fewer than 500 employees. The group of 100 entrepreneurially-led companies that were excluded created a net 50,000 jobs between them in the five years to 1994 in spite of the recession.

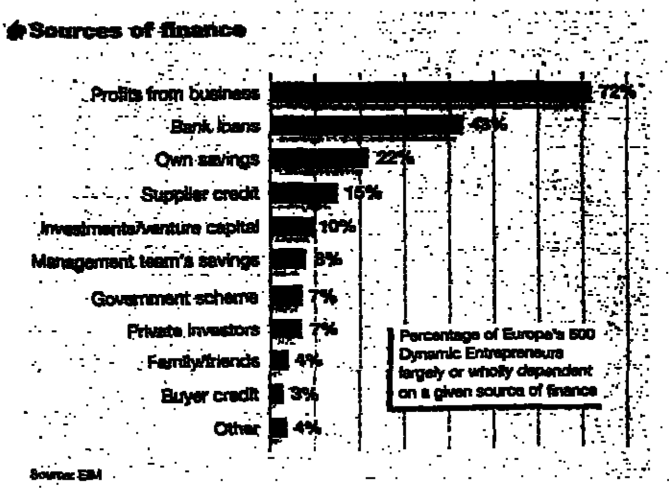
Over the summer teams within Ernst & Young's national operations in each European country started interviewing key individuals within the companies identified by IPS.

This has taken more time than any of the partners had anticipated. The results of the face-to-face interviews are being gathered by EIM, a small business research and consultancy firm in the Netherlands.

The findings of this study form the basis of papers being presented and discussed in a conference in Ghent today and tomorrow.

When Europe's Dynamic Entrepreneurs were incorporated

Sources of finance



Peoples Phone: by Tim Burt

Former minnow may pursue a listing

Peoples Phone operates on low profit margins and high volumes of business

Mr Charles Wigoder, the 35-year-old chief executive of Peoples Phone, rapidly unpacks a new mobile phone and turns it over in his hands.

Standing in the loading bay of the company's north London service centre, he says: "We think this will be a best-seller – it's a useful lifestyle tool."

Rapidly increasing sales of products of this kind have transformed Peoples Phone from a minnow in the telecommunications industry into one of Britain's largest mobile phone distributors and service suppliers.

Since 1990 pre-tax profits have risen steadily. They reached £6.52m in the 12 months to October 31 last year. Sales more than doubled to £118.5m in the same period.

However Mr Wigoder admits that net margins are thin – currently about 5 per cent – and that the business relies on volume growth and taking market share from competitors such as Cellnet or Mercury's One-to-One.

It would be churlish to attribute the success at Peoples Phone solely to its ability to ride the wave of increasing customer demand for mobile phones.

The privately-owned company has won about 10 per cent of the UK market by offering customers a guide through the maze of phone networks, tariffs and products available. It has established a significant presence in the high street by increasing its retail outlets from just four at the start of last year to 160, while also building a full service capacity on the Cellnet and Vodafone networks.

Mr Wigoder, a former executive at Carlton Communications, claims proudly: "We are the most efficient operator in the marketplace and there's a lot more growth to go for."

Given its growth aspirations, Peoples Phone admits it would be surprising if it did not float on the stock market or seek a merger partner to fund future developments.

"To develop this business there must be a likelihood that we will come to the market to fund operations which the current balance sheet could not sustain," says Mr Wigoder.

The company's plans include proposals to establish a presence on the "fixed wire" network. It intends to challenge BT and Mercury for a place among the suppliers of commercial and domestic telephone services.

The only potential brake on Peoples Phone's growth is the cash-hungry nature of the business. The company needs deep pockets to fund investment in its infrastructure and subsidise the cost of acquiring handsets from manufacturers.

Companies like Peoples Phone burn cash because they have to sell mobile phones as loss leaders. A typical handset could sell for £10 in a shop, but it may have cost the retailer as much as £400 to acquire from the manufacturer.

Peoples Phone has to recover that investment from the customer through line rentals and call charges over a 12-month contract.

To ease the pain of selling handsets at a loss, the company capitalises the cost of obtaining new subscribers and writes it off over three years. At the end of that period, Peoples Phone expects that about 50 per cent of the subscribers will still be under under contract and paying the charges which deliver profits.

Most of those customers join Peoples Phone after visiting one of its retail outlets, which are being rolled out at an ever-increasing pace.

To finance that expansion, the concern raised £12m in January 1994. Of this amount £2.5m was new equity and £9.5m was loan stock from issuing shares to Singer and Friedlander, the merchant bank which owns 35 per cent of Peoples Phone and which has invested some £20m in the business.

Peoples Phone further strengthened its balance sheet in December by drawing down a £15m term loan secured against the subscriber base of the company and by raising another £13.25m of equity.

The chief executive says the proceeds will be used for working capital and to repay loan stock.

"We're positioning ourselves for the mass consumer market, and that means taking market share from our rivals," he says.

In the UK the mobile phone market grew to 3m subscribers last year, of which Peoples Phone boasts 350,000 customers. This year the total could reach 5m and is projected to be more than 15m by the turn of the century.

Peoples Phone pursues a slice of that market not only from its brightly-coloured showrooms but also the call service centre at its new headquarters in north London. Officials there use a sophisticated computer system to monitor call charges and invoicing, and are reminded of any calls waiting by a ceiling-mounted electronic display.

Mr Wigoder says the speed and efficiency of the system and its staff help to make Peoples Phone one of Britain's fastest-growing non-quoted companies.

"This is a customer-led business and they are interested only in whether the phone works or not," he says. "We make sure it does."

Mobile phones are now used by people of all ages and walks of life

Telepizza: by Tom Burns

Fast food means fast growth

Telepizza brought an old concept to a new market and ploughed profits back into growth

Telepizza realised before its competitors that Spain was changing rapidly. Gone were the days of siestas and elaborate family meals. Fast food was what Spaniards wanted and needed.

The company was founded in 1988 as a single pizza parlour offering home deliveries in its immediate north Madrid neighbourhood. It now has nearly 200 centres spread out across 120 Spanish towns and cities.

This year Telepizza expects to post consolidated profits of more than Pta800m (£4m), more than double the Pta375m reported last year. It forecasts sales of some Pta19bn for 1995, up from 1994's Pta12.3bn.

"The market was zero when we started," says Mr Jose María Serrano, Telepizza's communications chief, "but there was a terrific opportunity". Mr Leopoldo Fernández Pujals, the company's founder, spotted the gap in the market. He owns 40 per cent of Telepizza's shareholder capital and was its chairman until a recent boardroom coup.

Mr Fernández was formerly an executive with the healthcare multinational Johnson & Johnson. He knew a lot about marketing and consumer fads and nothing at all about fast food. But he knew what the Spanish public was prepared to buy. When he came across pizza home deliveries during a stay in the US he had found the product he was looking for.

Telepizza now has a 54 per cent share of the pizza home deliveries market in Spain. Its success is as much the triumph of a concept as it is of a product.

The company's management understood that Spain had undergone a profound sociological change that had brought young mothers out of the kitchen and into the workplace. And office workers in Spain, like everywhere else, had begun to eat at their desks.

Home deliveries, as opposed to office deliveries, make up the bulk of Telepizza's business. They are ordered both by children battling with their homework while their parents are still at their jobs or by exhausted parents staggering home late because office hours in Spain can stretch into the night.

Telepizza also understands that although Spaniards have belatedly come round to the concept of fast food, the domestic culture remains imbued with the tradition of good home-made cooking. This means that the company has to take special care over the quality of its product – fresh ingredients are delivered daily – and over the amount of choice it offers its customers.

After pioneering pizza home deliveries, Telepizza has stayed ahead of its competitors by introducing the do-it-yourself pizza; clients can summon up literally thousands of permutations of the product's 15 basic ingredients. Its latest success has been a Tex-Mex pizza called the Jalisco, dreamt up by its consumer research department.

The corporate culture and growth strategy are no less important. Telepizza believes in decentralisation and cutting out bureaucracy. This ethos has set the tone of its staff relations and franchising.

Telepizza has succeeded in creating a corporate culture and with it an expansion strategy that has multiplied its rewards. Employees who deliver pizzas by motorcycle within half an hour of receiving the order are, in the company's parlance, autonomous businesspeople responsible for their own slice of the pizza market. These employees are allotted a specific area. It is up to them to develop a relationship with their clients.

Spurred on by sales incentives and bonus packages Telepizza's representatives will spend nearly as much time promoting the company in their allotted area as they do delivering its products to customers.

About half the 195 Telepizza centres in Spain are franchises. The company believes this mix is the right one and that further franchises as it expands will, for the time being, be the property of the existing 50 or so franchise owners.

"For a franchise system to work you have to have franchisees who love the company and what it produces," says Mr Serrano. "These are exactly the sort of people that we have got now and we want them to grow with us."

Telepizza wants employees to see themselves as entrepreneurs

Telepizza has pursued a strong investment policy, ploughing Pta1.3bn into new centres and equipment last year. It will invest a further Pta1.5bn this year.

One reason for the boardroom revolt that forced Mr Fernández's resignation in October was that other shareholders were clamouring for dividends and objected to the drive for expansion that he was masterminding.

Firmly established in Spain Telepizza has also tested foreign waters again through a mix of directly-owned units and franchises and has set up around 50 centres abroad. It is operating in Poland, Portugal, Greece and Belgium a well as in Mexico, Chile and Colombia. But the focus is on Spain. Its home market is far from saturated.

BMR: by John Murray Brown

Creditor who saw his chance to profit

How a small Donegal-based healthcare company is blazing a trail to the US

The windswept wilderness of northern Donegal might seem an odd place to find one of Europe's most dynamic companies. But a small assembly unit making a muscular stimulation product for the leisure and healthcare sectors is blazing a trail from a modest site in the Udarás na Gaeltacht, the industrial zone run by the development authority of the Irish-speaking region.

BMR Teoranta – to give its Irish language corporate title – has quietly established a niche market for itself, making products for muscular therapy and body toning using the Slendertone brand name which it bought in 1989.

Mr Kevin McDonnell, the chairman, chief executive and owner of 95 per cent of the company, is a little vague about the source of his success. Part of it, he says, is the strong work ethic in the area. He points out that half of his employees are from Glaswegian families – migrants who have returned to the north-west corner of Ireland bringing with them Scottish attitudes of thrift and industry.

Mr McDonnell himself fell into the job by accident. BMR, originally a UK company producing the Slendertone range from Ashford in Kent, relocated in the 1960s to take advantage of the Shannon free zone. However, the company eventually went into receivership. Mr McDonnell, then a creditor of BMR, approached the receivers to see what he could salvage. When he looked at the business plans, he spotted his chance.

"I thought it was a bit odd that the company could go out of business and yet, according to its business plan, it was capable of a 20 per cent return on turnover."

A chartered accountant by training – he was articled to Lord Parkinson, the former Tory minister – Mr McDonnell had a hunch he could turn the company round. His judgment was well-founded. He bought the company for £300,000 in 1989 and BMR sales are now growing at around 50-60 per cent a year.

The medical products business, where growth is less dramatic but margins are more attractive, is seen as the source of the company's future earnings. In the US alone the market for muscular rehabilitation products has jumped from $88m in 1991 to more than $200m this year.

"We have a completely revitalised product range, all of which has been developed and all of the cost of which has been completely written off," says Mr McDonnell.

Half of the original investment was provided by the Gaeltacht office in an unusual arrangement whereby the authority bought the assets off the receivers and sold them to the company.

Last year BMR brought in the local Paribas venture capital company – Smurfit Paribas – as a small equity partner. Smurfit has two non-executive directors on BMR's board. The plan is to engage an international shareholder before eventually going public. "Everything we have done since I took over has been geared to getting us ready for flotation," he says.

Many BMR products are not available over the counter. The company is looking at special advertising on video shopping channels. As Mr McDonnell puts it: "It's fine if it's an off-the-shelf product. But you can't expect Boots to stock our product if they have to spend 15 minutes explaining how it works every time they have a prospective customer."

> The company sees the higher-margin medical products business as the source of future earnings

In the US companies like BMR are prohibited from selling medical products over the counter. In Europe, the situation is slightly different. BMR, for example, is starting to sell its consumer range in Carrefour superstores in France and its range is available in pharmacies. However in 1998, under a European Union ruling similar to US laws, companies that sell such products will have to re-equip their factories to meet new health standards.

"I believe it will make life easier for us. I know it sounds a bit smart, but our products have always been seen as the industry standard," says Mr McDonnell.

Currently BMR spends half its budget on advertising costs. The company is also spending around £800,000 a year on research and development, quite a large sum for a company of its size. Accounting policy is conservative. "We don't capitalise any R&D. It's written off the month the expenditure takes place. The idea of tying up assets in your balance sheets reflecting your designs or your trademarks is just fluff. I know others disagree, but I can't go to the bank with it and I can't raise any money with it. I'd only be fooling myself," he says.

The company is best known for its Slendertone product line – a series of muscle stimulation equipment used in the cosmetic and personal care market. On the advertising front, the company is talking to Twiggy, the 1960s model, about an "infommercial" to promote the product.

But Mr McDonnell is more excited about the prospects for the medical side, particularly in the US where increasingly healthcare is being done "off site" at home or in therapy centres.

Only last month BMR concluded a deal with the Kaiser group of hospitals in California. BMR will supply an incontinence product under a rental arrangement, also providing servicing and direct patient aftercare.

Mr McDonnell is keen to point out that "few people realise that the sales of adult diapers in developed countries exceed those of baby diapers". The market for adult diapers is now worth $1.3bn a year.